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Promoting Transparency in Corporate Reporting: A Quarter Century of ISAR

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Preface

Member States of the United Nations have long realized the critical role of the private sector in achieving their economic and social development goals. The private sector provides goods and services, employment, tax revenue and hard-currency. Member States also recognized the need for comparable and reliable corporate reports. At the United Nations, Member States have been deliberating on these issues for over three decades. In October 1982, the Economic and Social Council established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) as a standing Group of Experts. Since then, ISAR has been holding annual sessions - first in New York and after 1993 in Geneva under the umbrella of UNCTAD.

Over these years, ISAR has been serving as an inclusive and neutral forum where experts from all Members states - developed and developing as well as countries with economies in transition - come together to exchange views and experiences on various aspects of corporate accounting and reporting. On many occasions, ISAR took up topics of a pioneering nature and concluded its work with consensus in a concrete manner. ISAR has been developing practical guidance with a view to assisting Member states with implementation. These include: accounting and reporting for environmental costs and liabilities, requirements for professional qualification of accountants, the accounting and financial reporting needs of small and medium-sized enterprises, corporate governance disclosure, corporate responsibility indicators in annual reports and practical implementation of International Financial Reporting Standards (IFRS). ISAR has often been cited as a good example that other Intergovernmental Working Groups of Experts at UNCTAD could emulate.

This year, ISAR is marking its twenty-fifth anniversary session at a critical juncture. Financial markets across the world are facing a major crisis. The call for meaningful, reliable and comparable financial reports has never been louder. Although significant progress has been made over the last three decades in promoting comparable corporate reports around the world, accounting and financial reporting requirements need to keep up with the rapidly changing and globalizing world of finance. At the twelfth Ministerial Conference that took place in Accra, Ghana, in April 2008, Member States have called upon UNCTAD to assist them with adopting and implementing international standards and codes such as IFRS. In this respect, the role of ISAR is indispensable.

This publication has been prepared by various experts from the ISAR network in commemoration of the twenty-fifth anniversary session of ISAR. It highlights some of the significant areas of corporate accounting and reporting that ISAR has contributed to over the years. It is my hope that this publication will provide policy-makers, regulators, standard-setters, academics and other readers a useful introduction to ISAR and an overview of its work over the past quarter-century.

Supachai Panitchpakdi

Secretary-General of UNCTAD
Geneva, October 2008

Acknowledgment

UNCTAD is grateful to all the ISAR experts past and present who contributed to the work on accounting and reporting over the past quarter century. Most of ISAR's conclusions on this subject were produced by ad hoc consultative groups whose membership is listed in Annex B. UNCTAD is especially grateful to the authors and commentators of each chapter who took the time to record ISAR's achievements. Their contributions are acknowledged by chapter.

UNCTAD extends special appreciation to Lorraine Ruffing, retired UNCTAD staff member and special resource person, for her valuable contribution to the publication.

UNCTAD would also like to express its appreciation to the members of the Secretariat who took the lead in initiating this work, supervised, edited, collated and produced this publication: Nazha Benabbes Taarji-Aschenbrenner, Sophie Combette, Estève Morel, Karima Aoukili and Peter Navarrette.

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Chapter I

Origin and Evolution of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

A. Introduction*

The origins of ISAR date back to the early 1970's. The United Nations Economic and Social Council unanimously adopted on 28 July 1972 resolution 1721(LIII) requesting the appointment of a Group of Eminent Persons to study the impact of TNCs on development and to make recommendations for appropriate international action.

Their report led to the creation of the UN Centre on Transnational Corporations (UNCTC), the negotiation of a draft Code of Conduct on TNCs and the establishment of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

B. Origin

1. Group of Eminent Persons and Group of Experts on International Standards of Accounting and Reporting

In 1972 the Secretary General of the UN assembled a Group of Eminent Persons (GEP) to look into the impact of TNCs on development. In their report (1974) to the Secretary- General the GEP was struck by the serious lack of both financial and non-financial information provided by TNCs and the lack of comparability of corporate reports. This information gap made it very difficult for host countries to know how TNC operations were affecting their development goals. To remedy these deficiencies, the GEP recommended that an international and comparable system of standardized accounting and reporting should be formulated. To accomplish this, the GEP advised that an expert group on international accounting standards be convened under the auspices of the Commission on Transnational Corporations.[1]

The Group was appointed in 1976 and was serviced by the UNCTC. Fourteen high-level experts were selected from various disciplines (accounting, law, social sciences) and backgrounds (government, TNCs, trade unions, universities) taking into account the need to have representation from all geographical regions. The Group was chaired by the former Governor of

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* This chapter was written by Lorraine Ruffing. She acknowledges the useful comments of Khalil Hamdani, Ray DeReyna, Ingrid Scheibe-Lange, Asta Tjolsen and Nelson Carvalho.

[1] United Nations (1974). The Impact of Multinational Corporations on Development and on International Relations (UN publication, Sales No. E.74.11A.5), p.95.

the Reserve Bank of India who had been the Chairman of the Group of Eminent Persons. One of the Vice- Chairs included the President of the International Accounting Standards Committee (IASC)[2].

The Secretary- General invited the Group to recommend a minimum list of items, together with their definitions, that should be included in reports by transnational corporations and their affiliates, taking into account the recommendations of various groups concerned with this subject matter.[3]

It was recognized that the establishment and implementation of a standardized accounting and reporting system would be a lengthy process. The elaboration of a minimum list of items was viewed as the first step in the process. Such a list of minimum reporting requirements would widen the scope and standardize the coverage of general purpose annual reports. However, the Group realized that it was necessary to do more than technical work. It was also necessary to establish a mechanism to promote the adoption of the recommended accounting and reporting standards at the international and national levels.[4]

Acknowledgement was made of others working in this field such as the IASC, established in 1973, which had issued several standards. While these merited serious consideration, it was also clear that within a broad international framework the consideration of a wide range of political, economic, social and cultural and legal implications of the operations of transnational corporations was necessary.[5] This broader task required that reporting be extended beyond financial reporting. The Group recommended that non-financial items should be made an integral part of general purpose reports. This focus set the Group of Experts and its successor groups apart from other initiatives in the area of international accounting and reporting. The Group identified five areas of non-financial information for inclusion in minimum disclosure lists: labour and employment, production, investment programmes, organizational

Structure and environmental measures. [6]

After much discussion, they drafted a list of minimum reporting requirements that had been requested by the Secretary- General. The list was contained in their 1977 report which became known as the "Blue Book". The hope was expressed that such a list would eventually be used for the purpose of working out, within the framework of the United Nations, an internationally accepted set of reporting standards.[7]

The Secretary- General endorsed the Group's recommendations on the minimum list and invited governments and national accountancy bodies to give every consideration to using the proposed reporting standards and lists of minimum items of information. While most delegations to the Commission on TNCs were of the opinion that the "minimum list" for disclosure was in line with good current practice, some other delegations stated that it "exceeded even the most

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[2] United Nations (1977). International Standards of Accounting and Reporting for Transnational Corporations, E/C.10/33, 18 October 1977, pp.21-25.

[3] Group of Experts on International Standards of Accounting and Reporting (1976). Towards International Standards of Accounting and Reporting for Transnational Corporations, E/C.10/AC.1/2, 28 July, Geneva, p.3.

[4] International Standards of Accounting and Reporting, p.7.

[5] Towards International Standards, pp 9-10.

[6] International Standards of Accounting and Reporting, pp. 76-79.

[7] Ibid., p. 28.

advanced current reporting practices". [8] However, it was these current practices which the Eminent Persons had found wanting in their 1974 report.

The Secretary- General also recommended that the Commission on TNCs request governments to encourage TNCs to voluntarily adopt the standards and lists. However, he realized that the promotion of voluntary application of the proposed reporting standards could not be expected to achieve the degree of comparability and increased disclosure of information which was necessary for the over-all appraisal of the activities of transnational corporations. The Secretary- General considered that the establishment of international standards on accounting and reporting required an international agreement among governments. Prior to the establishment of such an agreement he called for a continuous review of the work of national, regional and international groups in order to forestall conflict between the various reporting standards.[9]

2. Creation of the Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

In approving the final report of the Group of Experts, the Commission on TNCs recommended the setting up of an "ad hoc" intergovernmental working group of experts on international standards of accounting and reporting. The Ad Hoc Intergovernmental Working Group of Experts with 30 members was elected by Economic and Social Council (ECOSOC) and held six sessions from 1980-1982. The Group considered it desirable to pursue a basic objective, namely, to promote the adoption of accounting and reporting standards to improve the availability and comparability of information concerning the operations of TNCs. It decided to review the minimum list of the former Group of Experts and the recommendations of the Secretary-General with respect to the establishment of an international, comparable system of standardized accounting and reporting for TNCs.[10]

After the six sessions, the Group was able to agree on the methods/approaches for accounting for and reporting a number of items in respect of the minimum list of financial and non-financial information for general purpose reporting. However, as certain issues related to disclosure remained unresolved and merited further consideration, they recommended the creation of an international body meeting under the auspices of the United Nations. The Ad Hoc Group presented its final report at the 1982 session of Commission on TNCs. While some delegations agreed that harmonization of international standards of accounting and reporting needed to be given continued consideration, other delegations expressed the view that the work on standard-setting should be left to the professional, national, regional and international bodies that had already been engaged in that complex task. Other delegations were of the opinion that the United Nations should take the lead in the matter, although the work of international professional bodies should be fully taken into account. In the end most delegations agreed that a new working group should be created to continue the work of the Ad Hoc Group.[11]

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[8] United Nations Economic and Social Council (ECOSOC) (1978). Report of the Fourth Session of the Commission on Transnational Corporations, 16-26 May 1978, Economic and Social Council Official Records, Supplement No. 12, United Nations, p. 25.

[9] International Standards of Accounting and Reporting, p.11.

[10] UN Centre on Transnational Corporations (1984). International Standards of Accounting and Reporting: Report of the Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, E/C.10/1982/8/Rev. 1, New York, 1984, p. 3.

[11] 11 UNECOSOC (1982). *Report of the 8th Session of the Commission on Transnational Corporations*, 30 August-10 September 1982, Economic and Social Council Official Records, 1982, Supplement No. 8, pp. 24-25.

3. Creation of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting was created by ECOSOC Resolution 1982/67, Establishment of an Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. The new Group or ISAR was composed of experts from 34 countries from the various geographic regions of the world.

4. The Mandate of ISAR

The mandate of the Group is fourfold. It is

To serve as an international body for the consideration of issues of accounting and reporting falling within the scope of the work of the Commission on TNCs

To improve the availability and comparability of information disclosed by transnational corporations

To review developments in this field, including the work of standard-setting bodies and

To establish priorities taking into account the needs of home and host countries, particularly those of developing countries.

The main objective of the Group was to make a positive contribution to standard-setting in order to achieve greater comparability of the disclosure by TNCs. While the United Nations has often taken up the role of "standard-setter" (i.e., in human rights, health, labor, telecommunications, trade), the enabling resolution did not authorize ISAR to set standards but to contribute to standard- setting and promote harmonization.

Many delegations to the Commission on TNCs were of the opinion that ISAR's recommendations could facilitate the work of standard-setting bodies and the accountancy profession at national, regional and international levels.[12] Some accounting experts have concluded that this result was due to the fact that there were two competing national standard-setting models. In countries with a codified law tradition, standards were made by governmental bodies; in common law countries, standards were made by the private sector.[13] Thus, there was strong opposition from the common law countries to giving the UN a standard-setting role in accounting. In addition a standard-setting activity would have required considerable resources, certainly more than the UN was able and willing to provide.

C. Evolution of ISAR's work and contributions to the field

1. Work on the minimum list

[12] UNECOSOC (1984). Report of the 10th Session of the Commission on TNCs, 17-27 April 1984, ECOSOC Official Records, 1984, Supp. No. 8, p.23.

[13] Nobes, Christopher (n.d.). *A Comparison of the International Accounting Standards Committee and the UN Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting*, Discussion Paper.

During its first years of existence (1983-1989) ISAR deepened the recommendations of its predecessor groups and worked on the minimum list which included over 50 items. It laid down how they were to be treated in financial statements in its agreed *Conclusions on Accounting and Reporting (1988)* which was endorsed by all 34 official members of the Group. This was updated in 1994. Although ISAR often used the international accounting standards (IAS) for its work after an in-depth discussion of the problem involved, it frequently added some disclosure requirement that reflected social or political issues rather than just information about profitability. ISAR's procedure was to review IAS and probably recommend them but, in addition, reflect user needs in home and host countries which helped to avoid duplication of work and to improve disclosure standards.[14]

Many delegations to the Commission on TNCs thought the agreed accounting methods and items for disclosure could bridge the gap between TNCs and users and they requested governments, standard-setting bodies, the accountancy profession, and TNCs to give them "due recognition".[15]

As a companion to the agreed conclusions ISAR developed a conceptual framework for accounting in its *Objectives and Concepts Underlying Financial Statements (*1989)**;** see Chapter Two for a description of the work and its outcome. The Group felt it was necessary to explain to preparers and users of financial statements the main objectives of such statements and the broad concepts which underlie their preparation.

2. Building capacity for improving disclosure

1988-1989 marked an expansion of ISAR's work. Delegations had been urging ISAR to become "more operational". It had long been said that poor accounting was an obstacle to development in that policy-makers could not make informed decisions in the absence of corporate information. Almost every study of the quality of accounting and management information systems in developing countries confirmed the correlation between the level of economic development and accounting development. Moreover, there were some in the academic accounting world who had raised concerns about the capacity of the accounting profession in the developing world and its role in economic development but they were in the minority.[16]

The UNCTC joined forces in 1990 with the World Bank, the International Labour Organization and the Federation International des Experts-Comptables Francophones (FIDEF) to do an in depth study of state of the accountancy profession in 37 African countries. It discovered that in 18 countries, there were fewer than 50 fully qualified accountants, the majority of whom were in the private sector, leaving the public sector seriously understaffed. While most countries had a professional accounting body, very few offered a national qualifying examination. It was obvious that such deficient accounting environments could not promote development, support standard-setting activities or contribute to useful corporate disclosure.[17]

In 1991 the above parties co-sponsored an International Conference on Accountancy Development in Africa in Dakar, Senegal. It was attended by over 300 practitioners. The panels of experts discussed the status of accounting education, the role of the accounting associations and the government. The participants described the situations in their countries. Invariably, the

[14] Scheibe-Lange Ingrid (2000). "The Role of ISAR from the Viewpoint of Employees and Their Trade Unions", *2000 Review of International Accounting and Reporting Issues.*

[15] UNECOSOC (1987). *Report of the 13th Session of the Commission on TNCs*, 7-16 April 1987, ECOSOC Official Records, Supp. 9.

[16] Enthove, Adolph (1995). "Economic Development and Accountancy", *Journal of Accounting*, August

[17] UN Centre on Transnational Corporations (1991). *Accountancy Development in Africa: Challenge of the 1990s,* United Nations, New York.

education was poor; the associations were little more than business associations and exerted little control over their members and the government had scant demand for reliable accounting. In order to receive a credible education and qualification, most had to study abroad or in foreign-sponsored programmes. As the UN survey had revealed, there was a lack of qualified accountants and without them it was impossible to produce accounting standards or implement them. Nevertheless, developing countries had to compete in the world market which meant that their productive sectors must compete. Without a qualified accounting profession their productive sectors were lacking basic financial management necessary for survival and growth.

There was also the problem of mutual recognition of qualifications. As long as accounting training and credentialing systems were poor, there was little chance that African degrees would be recognized. The participants requested that the International Federation of Accountants (IFAC) expand the role of its education committee and monitor the use of its educational guidelines and this would give more value to African degrees. The education committee could act as a supervisory committee and review the curricula of African universities and institutes to see if they met the guidelines. If they did, the committee could certify that the institute/university was in compliance. Unfortunately, the education committee of IFAC declined to take on this new role. However, the request from the conference floor was eventually pursued by ISAR when it developed the guideline on professional qualifications and a model accounting curriculum which will be covered in Chapter Six.

3. Work on non-financial accounting

The agreed *Conclusions* were almost entirely restricted to financial items. In 1989 ISAR started to take up non-financial items such as the disclosure of environmental measures (see Chapter Three on environmental accounting). ISAR realized that in order to understand the wider impact of transnational corporations on development, it was necessary to go beyond financial reporting and report on social and environmental issues. The term “non-financial reporting” generally applies to all those areas not usually covered in financial statements. Since non-financial information did not always give a full picture of a given area of interest, it is clear that some financial items might also have to be included in the reports dealing with non-financial information. For example, in the case of environmental reporting, descriptive material on the environmental measures adopted might need to be accompanied by some information on the cost of such measures.

At the urging of experts from India and Norway, the Group took up the subject of environmental accounting in 1989. India was still in litigation over the Bhopal disaster in which toxic emissions from a Union Carbide plant killed 3,800 overnight, 15,000 within the week and left 120,000 injured. The then Prime Minister of Norway had just completed a study named for her on sustainable development (the Brundtland Report) and was anxious that its recommendations be implemented as widely as possible. Initially, there was some skepticism from some developed country experts about taking up the topic because they did not see what contribution accountants could make. After surveying the state of environmental disclosures and assessing the feasibility and desirability of such disclosures, the Group gave its initial guidance in what could be included in the report of the board of directors. It later expanded these recommendations in 1995 and 1998 (see Chapter Three). ISAR’s work on environmental accounting helped to increase the awareness of this subject and to improve the methodology to identify, measure and report the impact of business on the environment.[18] ISAR’s guidelines reinforced a powerful albeit simple message: *disclosure drives behavior*.

[18] UNCTAD (1999). *Accounting and Financial Reporting for Environmental Costs and Liabilities*, United Nations, New York and Geneva.

ISAR also developed eco-efficiency indicators to complement the usual financial indicators so that companies and stakeholders could measure, evaluate and analyze the companies' environmental performance. Environmental accounting is today a popular issue in the business world, at the domestic and international levels. ISAR's work set the benchmark for environmental accountability and integrated it into financial reporting.[19]

Environmental accounting workshops

The formulation of guidance on a particular disclosure issue is not an end in itself. Due to a generous grant from the World Bank and cooperation with the UN Environmental Programme (UNEP) and the Association of Chartered and Certified Accountants (ACCA), ISAR was able to disseminate its guidance on environmental accounting through ten regional seminars. From 1998 to 2001 the UN partnered with professional institutes , business associations and banks in Africa, Asia, Latin America and the Middle East to hold workshops in Argentina, Bahrain, Brazil (2), Czech Republic, Egypt, India, Kenya, Malaysia and Thailand. As a result of the workshops, professionals learned how to apply the guidelines in their work as preparers of corporate reports. In addition professional associations and standard-setters were able to use the guidelines to formulate their own regulations and the UN training materials to strengthen the capacity of their members to deal with this issue. For example, the Stock Exchanges of Thailand and Kuala Lumpur used it to formulate their guidance, and the Chinese Ministry of Finance used it to shape a Chinese accounting standard on the topic. The Arab Society of Certified Accountants wrote to each national regulator requesting that the guidelines be tabled for adoption. The Philippine Institute of Certified Accountants and the Malaysian Institute of Accountants incorporated the training materials into their syllabi and held additional workshops in Asia.

In completing the project the UN invited the workshop participants with a background in teaching to a "train the trainers" course in Geneva. Members of professional institutes and business associations were among those trained thus leaving the national institutes and regional associations with the capacity to continue this training. It should be noted that this dissemination occurred because of the availability of extra-budgetary resources and the pro bono contributions from many partners. While accounting training is not an overly popular activity among aid donors, environmental protection is a popular topic and this explains why ISAR was able to access the necessary resources. Unfortunately, it was not possible to always repeat this experience in disseminating ISAR's guidance in other areas.

4. Accounting reform and training in transition economies

ISAR membership had always included experts from the centrally planned economies. During the years preceding their transition to market economies, the experts had used ISAR as an information forum. ISAR had been studying topics of interest to them and published its guidance on *Accounting for East-West Joint Ventures* (1992) and *Accounting, Valuation and Privatization* (1993).

With *glasnost, perestroika* and finally the transition to market economies, the experts from the former Soviet Union turned to ISAR as a source of objective advice to institute legislative reforms and to retrain over 3 million accountants in the new rules (see Chapter Four). The Commonwealth of Independent States (CIS) had a well-developed bookkeeping system which satisfied the needs of government planners, statisticians and other officials. It did not, however, produce all the financial information typically needed by investors, creditors or even managers. In the words of one ISAR expert from the region, "The accounting system should no longer be used merely to verify production targets". His country evaluated very positively the

[19] UNCTAD (2000), *Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardising Eco-efficiency Indicators*, United Nations, New York and Geneva.

Group's work on joint ventures since the Group was contributing to economic restructuring. Furthermore, his country was ready to make greater use of agreed international standards.[20]

In 1989 the UNCTC responded to a request from the former Soviet Ministry of Finance to assist it to launch an integrated programme of accounting reform, accounting education and strengthening the accounting profession. The UNCTC and the former Soviet Ministry of Finance organized an international Task Force on Improvements in Accounting. The task force was composed of ISAR experts from Canada, France, India and Mexico as well as technicians from the large accounting firms. Not all the "Big Eight" accepted the UNCTC invitation since they said they were usually paid for such work. The first step was to revise the chart of accounts to comply, as far as possible, with international accounting standards. The Task Force did not engage in "shock therapy" but rather built a bridge between the old system and the new. With three million bookkeepers and chief accountants it was not possible to change the system overnight.

During the course of the work, the Soviet Union collapsed. However, the Russian Ministry of Finance adopted the new chart for use in December 1991 and all CIS countries followed suit thereafter.

To complement the work of the Task Force, the UNCTC, together with leading Soviet academics, developed training programmes for three different groups: practitioners in the public and private sectors, professors and upper level university students. The publishing house, Finance and Statistics, translated eight major accounting and auditing textbooks into Russian such as Belverd Needles, ***Principles of Accounting*** and Gerhard Mueller et al, ***Accounting, An International Perspective***. The project also reproduced an English-Russian dictionary of accounting terms. Over 1000 students were trained using the UNCTC curriculum and textbooks. The classes were initially taught, on a pro bono basis, by professional accountants and trainers from the "Big Eight". A related benefit to them from the programme was the ability to identify candidates for staff positions in the offices they were opening in the former Soviet Union. This was one of the earliest examples of "public-private partnerships" in the United Nations.

Over 125 leading accounting professors were selected in a "train the trainers" programme in four centres of excellence in Moscow, St. Petersburg, Kiev and Tashkent funded by the United Kingdom Know How Fund. The model curricula were later used by the European Commission as a stepping stone to produce 4000 pages of training materials.

The work of the former Task Force was continued by an expanded body called the International Advisory Board (1992-1996) which was funded by the European Commission as UN funds had run out. The new Board included the European Commission, UN, World Bank, Organization for Economic Cooperation and Development (OECD), IFAC and IASC. Its objective was to provide consistent advice to the Russian Federation on accounting reform and retraining. The International Advisory Board drafted a model accounting law, an audit law and training materials in Russian based on the UN curricula. The project was a good example of effective coordination by international organizations to meet local needs as it worked closely with the appropriate counterparts (Ministry of Finance and the Duma). However, it took a number of years for all this work to be reflected in legislation, the reasons for which are explained in Chapter Four. However, the work of UNCTC, ISAR experts, international accounting firms and international organizations did give the former Soviet Union a quick start as well as having a sizable multiplier effect.

At the request of the CIS , the UN and OECD organized a council for the exchange of accounting information and retraining (1992-1997). Accounting standard- setters within the

[20] UNECOSOC (1990). *Report of 16th session of Commission on Transnational Corporations*, 2-11 April 1990, ECOSOC Official Records, 1990, Supp. 6, p20)

various ministries of finance had always been called together periodically to receive the new rules and instructions for implementation worked out in Moscow. With the breakup of the former Soviet Union and lack of direction from Moscow, there was a very real risk that accounting methodologies and regulations would begin to diverge across the CIS with all the same drawbacks as experienced by the rest of the world. The council established two sub-groups; one to elaborate a conceptual framework for accounting principles and the second to draft a model audit law and audit standards. Eventually, priorities changed at the OECD and the council lost its support.

5. Strengthening of the accounting profession

In the early 1990's ISAR recognized that a leg might be missing in the global arena of corporate reporting. ISAR noted the continued progress in international accounting standard setting, within the former IASC, now the International Accounting Standards Board (IASB). ISAR also recognized that adequate auditing standards were being developed by the International Federation of Accountants. Yet corporate accounting and auditing scandals continued to plague the corporate world and affect the capital markets. So where were the professionals able to implement those standards? ISAR realized that global accountants were needed and the education issue again hit ISAR's agenda. Two other factors added to the urgency of creating the basis for a global profession. First, was the continuing need of accountants in developing countries and transition economies to have their professional qualifications recognized at the global level. To facilitate recognition a global benchmark was needed. The need for a "global qualification" cum benchmark had been first discussed at the 1991 accounting conference in Dakar, Senegal. Second, the World Trade Organization (WTO) started work in 1995 on rules which would facilitate trans-border trade in accounting services. A benchmark could both strengthen the profession in developing countries and allow them to take advantage of any reductions in the barriers to trade in accountancy services.

ISAR first requested IFAC to extend its role to cover these needs by developing a global qualification. It declined and so ISAR took up the challenge and dedicated six years to this subject starting with its annual session in 1993—the last in New York (see Chapter Six). ISAR designed a benchmark or guideline for the qualification of professional accountants which would establish a point of reference for national qualifications and assist holders of those qualifications to function in a global economy. It also developed a detailed model curriculum. It was updated in 2003 to meet the evolving needs of the profession. Many professional organizations were involved in its design including the Association of Chartered and Certified Accountants, the Arab Society of Certified Accountants, Certified General Accountants of Canada as well as IFAC which had earlier declined involvement.[21] ISAR also considered the necessity of creating an international qualification organization which could attest that national professional organizations were complying with the international requirements for professional qualifications. However, there was insufficient support, if not outright opposition from the private sector, for a compliance mechanism.

6. Accounting by Small and Medium-Sized Enterprises

ISAR next saw that the world is not made up just of big business—it is made up of small and medium-sized enterprises as well. These are the largest employers in virtually any economy, developed, emerging or in transition. It became clear that SMEs needed assistance: first to survive, later to grow. The failure rate of SMEs is astonishingly high everywhere and it can be reduced with proper management based on more reliable information for decision-making. But what efforts were being made in accounting circles to assist SMEs? --practically none. The

[21] UNCTAD (1999). Guideline on National Requirements for the Qualifications of Professional Accountants, United Nations, New York and Geneva.

pressure of handling matters related to the big business world did not leave room to consider SMEs' needs. ISAR recognized the diversity among SMEs and fashioned its guidance for three levels (see Chapter Nine):

First level for listed enterprises; they are required to follow international financial standards (IFRSs)

Second level for significant business enterprises that do not issue public securities; they are required to account for and report only the most regularly encountered transactions[22]

Third level for the smallest entities that are owner-managed and have few employees; they would use simple accruals-based accounting.[23]

When ISAR members were polled regarding what guidance they had found the most useful, the majority replied that it was the guidance on SMEs. SME issues are now on the agenda of several other multilateral or professional organizations. Again, ISAR delivered the message and provided a starting point in terms of a sound kit of suggestions that others could improve upon.

7. Role of Accounting in Financial Crises and Challenges to Accountants and Auditors

ISAR also saw that while the pace of globalization was rapid, it was continuously broken by a number of crises including the Asian financial crisis (1997), the demise of the major enterprises such as Enron and WorldCom in the United States (2001 onward) and the current credit crisis (2007-2008). The profession had played a prominent role in these crises. In the East Asian crisis large accounting firms were accused of attaching their international brand names to audit certificates which did not comply with international standards. The World Bank took note of ISAR's report, *The Role of Accounting in the East Asian Financial Crisis,* by Zubaidur Rahman, and called the accountants to account. At the World Congress of Accountants held in Paris in 1997, the World Bank President told the profession it should do more to enhance accounting capacity and capabilities in developing and emerging nations. Responding to this, IFAC together with the World Bank, created the International Forum for Accounting Development to help developing countries to improve their accounting and governance regimes.[24]

8. Corporate governance and corporate social responsibility

Investors in 2002 deserted major capital markets because they lost confidence in both management and the board of directors and in the financial statements they produced. The crisis of confidence was caused by the lack of ethics that led CEOs and their auditors to bend the accounting and reporting rules and the fact that the board of directors seemed to be asleep at the wheel. ISAR, therefore, put corporate governance on its agenda and issued guidance on how it is to be disclosed (see Chapter Seven).[25]

[22] UNCTAD (2004). Accounting and Financial Reporting Guidelines for Small and Medium-Sized Enterprises: Level 2 Guidance, United Nations, New York and Geneva.

[23] UNCTAD (2003). Accounting and Financial Reporting Guidelines for Small and Medium-Sized Enterprises: Level 3 Guidance, United Nations, New York and Geneva.

[24] Frederick, Richard (2000). "Global trends impacting on corporate governance and accounting and some of the resulting challenges for the future", *2000 Review of International Accounting and Reporting Issues*.

[25] UNCTAD (2006). *Guidance on Good Practices in Corporate Governance Disclosure,* United Nations, New York and Geneva.

Then ISAR turned its attention to corporate social responsibility (CSR). Most definitions of CSR describe it as constituting actions whereby enterprises integrate societal concerns into their business policies and operations including environmental, economic and social concerns.[26] Taking up CSR was the logical return to the UN's mission to analyze within a broad international framework the political, economic, social, cultural and legal implications of the operations of TNCs. The work on environmental accounting and reporting also provided a model for work on CSR disclosure. At the present moment the CSR movement, which has grown by leaps and bounds, is suffering from a backlash. There are those skeptics which see TNCs joining the CSR movement to increase their shareholder value without making any real changes in how they do business. However, ISAR's guidance on CSR disclosure and monitoring could separate the wolves in sheep's clothing from those TNCs which have made substantial progress (see Chapter Eight).[27]

D. Role of ISAR as a global forum for corporate disclosure

For the last quarter century ISAR has provided a forum for experts from developed and developing countries to consider continued improvements in financial and non-financial reporting. It is inclusive vs. exclusive and has the legitimacy of an intergovernmental body. The large attendance (over 200 experts) at ISAR sessions is an indication of the relevance and high quality of ISAR's work. Certainly, such a large group of distinguished and busy professionals could find better ways of spending their time and money if that were not the case. Since ISAR's inception, it was realized that career diplomats could hardly be asked to navigate the intricacies of accounting and its jargon, therefore the members of ISAR are technicians who act on behalf of their governments by contributing their knowledge to improve corporate transparency and accountability around the world. Over time ISAR has fulfilled a broad mandate and its experts provided assistance to government policy-makers both in their roles as regulators and as promoters of economic development. When ISAR experts implement reforms at home, their task is made easier if they can point to the fact that it is based on ISAR's guidance which has been achieved via a consensus among member States and reflects best practice.

Developing countries are largely under-represented in private-sector standard-setting bodies. In the wake of corporate scandals and failures, the rules of accounting and reporting and the regulation of the profession are being revised in developed market economies. Developing countries have to meet these higher standards which are not of their own making. ISAR provides the only opportunity for many developing countries to identify their policy needs, agree on harmonized approaches and influence the "rules of the game" as set by developed market economies.[28]

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[26] UNCTAD (2004). *Disclosure of the Impact of Corporations on Society*, United Nations, New York and Geneva.

[27] UNCTAD (2008). *Guidance on Corporate Responsibility Indicators in Annual Reports*, United Nations, New York and Geneva.

[28] Carvalho, Nelson (2003), "Transparency and Accountability after Thirty Years-Achievements, Disappointments and Challenges", Speech during 20th Session of ISAR, Geneva, 29 September.

ISAR's Comprehensive View

ISAR brings issues together that are usually discussed separately. Those include financial reporting (including aspects not usually discussed by the IASB such as environmental and social reporting) and corporate governance. But,very importantly, practical implementation and enforcement issues are addressed in detail. Therefore, it serves as a medium to cover a broad spectrum of issues very closely related to financial reporting. These aspects are important for a global harmonization of financial reporting, for a uniform application of international reporting standards.

Liesel Knorr, German Accounting Standards Board

Over its life, ISAR's contributions to improving non-financial information have filled a gap in the area of international accounting and reporting. It has focused on the needs of the users of corporate reports as well as the needs of the preparers—namely, professional accountants. It is one thing to give guidance on the rules for better disclosure and another to strengthen the capacity to implement those rules. It has given guidance on the responsibilities and liabilities of professional accountants and auditors as well as developing a benchmark for the requirements for professional qualifications and providing academics with a model curriculum. When resources were available, it has undertaken extensive work in accounting retraining (Azerbaijan, Russia, Ukraine, and Uzbekistan). Its 10 regional workshops on environmental accounting not only built capacity but also spurred regulatory change in developing countries. Dissemination of ISAR's guidance depends on the resources available and the efforts of the individual experts. According to an independent survey awareness of ISAR's work is highest in Arab countries, economies in transition and developing countries and lower in developed countries.[29]

Most importantly, ISAR has remained, since its earliest days, a forum for consensus building. It does not aim to supersede any other entity or organization. It aims to join forces with other key players in the financial reporting arena to reach larger audiences. Other standard-setting entities do have more financial and specialized human resources. However, they lack the legitimacy to speak on behalf of all governments and they may have too narrow a focus to allow them to encompass all stakeholders and the issues important to them. What sets ISAR apart from other accounting groups is its insistence that corporations are accountable to all stakeholders not just to shareholders. As the quest for corporate transparency and accountability is perpetual, the mandate of ISAR is still valid and its guidance still necessary.

[29] Nobes.

ISAR as a consensus-building forum

ISAR has not only provided a forum for experts from developed and developing countries to consider continuous improvement of financial and non-financial reporting, but also created an important worldwide forum for consensus-building where policy makers, regulators, standard setters, professional accountancy organizations, academia and other stakeholders from different countries could exchange views on issues of common concern and achieve an international agreement among governments. This forum is also very helpful for developing countries to communicate with developed countries and international bodies and to promote harmonization of accounting and reporting.

Dr. Chen Yugui, Secretary General, Chinese Institute of Certified Public Accountants.

Chapter II
Objectives and concepts underlying corporate reporting: Have we reached the frontiers of accounting?*

A. Introduction

In October 2008 a little more than 20 years after Black Monday when the Dow Jones plunged by 20 percentage points, we are in the middle of a financial crisis which is having devastating effects on financial institutions and is threatening to derail the global economy. Could this crisis have been avoided by better corporate reporting providing management and investors a "true and fair view" of the risk situation relating to financial instruments? What happened in the accounting system after Enron and others failed at the turn of the century-largely due to "creative accounting" used to conceal the performance of the enterprise? Is the talk about transparency and corporate governance any more convincing today than at the time of the Enron melt down?

With this background the 25th anniversary of ISAR offers an opportunity to reflect on the adequacy of systems, rules and procedures that have been put in place over the last two decades. Have we reached the frontiers of accounting? Are we still operating on the basis of sound concepts? Should the objectives be revised? Should we put greater emphasis on enforcement and prevention of abuse?

This chapter will discuss the reasons why ISAR in its early days devoted so much time to conceptual work-defining the first building blocks of financial statements and then trying to clarify their underlying objectives and principles. The achievements of this work will be highlighted as well as its shortcomings. The chapter will then look at the significant challenges that remain and explore future perspectives.

B. ISAR's conceptual work: objectives, achievements and shortcomings

When ISAR was created, there was the strong belief that accounting would make the difference between performance and failure and between sound and unsound management and investment decisions. Work on accounting standards bloomed. The OECD launched its Working Group on Accounting Standards in 1980 with the clear mandate to promote comparability of corporate disclosures based on convergence and harmonisation of methodologies and standards. The European Union was working to achieve a regulatory environment for accounting based on the 4th and 7th company law directives. And the International Accounting Standards Board (IASB) started its mutation from a purely professionally- based body to a more representative group including preparers and users of financial statements.

ISAR was a newcomer in this field. When it saw the light of the day, the UN negotiations on a Code of Conduct for transnational corporations had already reached a stalemate. Yet there

* This chapter was written by Rainer Geiger.

was one area where optimism continued to prevail: the aim of accounting standards' harmonisation.

ISAR had the mandate to review the work of other international bodies and to help developing countries participate in the process of developing international standards. It did not claim to be standards setting body itself but saw its role in drawing together a set of conclusions on accounting and reporting that could be shared worldwide. Accordingly, it examined one by one important accounting issues and once this agenda was exhausted the idea of preparing a compendium was born.

Drafted in 1987 and published in 1988 and subsequently revised in 1994, the Conclusions on Accounting and Reporting by Transnational Corporations is the only document developed by an intergovernmental group reflecting the views of both developed and developing countries[30]. Nevertheless, the conclusions were drawn from good practice found in the most developed country accounting systems and seamlessly integrated the work with that which was going on in parallel in the OECD under the Guidelines for Multinational Enterprises. The Conclusions reflected market orientated systems as the representatives from the fading socialist block did not have any discernable impact on the debate.

The resulting compendium was not innovative. Its elements could be found elsewhere. But it did have the merit of creating an integrated set of recommendations in one single document versus many separate standards. And it is still valid today as an introduction to the basic issues that must be addressed by any accounting system whether national or international.

The Conclusions are focused on reporting by transnational corporations in order to ensure the transparency of their operations and covers issues that had long been debated by accounting bodies: e.g. consolidation and segmented reporting, joint ventures, foreign currency translation and accounting policies. In the second part, it covers information items for general purpose reporting of equal importance to the operation of purely national companies and transnational corporations. For a number of developing countries this compendium was a first important step in rationalising and subsequently reforming their systems and at the same time becoming participants in the international debate.

Work on the conceptual framework for accounting was the next step. In order to draft and apply accounting standards in an intelligent and consistent manner fundamental principles have to be taken into account and these principles have to be allowed to override detailed rules where it is necessary to reflect the economic substance of transactions."Substance over form" and the aim of corporate accounting reflecting a "true and fair view" of the performance and financial situation of company are milestones in this process. How much disruption in the corporate world -Enron and other spectacular corporate failures could have been avoided if these key principles had been respected rather than formally complying with technical accounting standards and thereby concealing misbehaviour?

Recognition and measurement are crucial issues for preparing accounts giving a true and fair view. The most heated debates took place on the following concepts:

- Historical versus fair market value, under which circumstances and for which type of transactions?
- How to account for the effects of inflation?

Recognition of revenue was equally important:

[30] Conclusions on Accounting and Reporting by Transnational Corporations, united Nations, New York, 1988; Revised edition, 1994.

- How to avoid under the capital maintenance principle that a company distributes unrealised gains?
- How to reflect contingent liabilities in the accounts and what should be the treatment of off-balance-sheet transactions like the use of innovative financial instruments?

Questions of this type cannot be adequately answered without reverting to the fundamental objectives of accounting: i.e. the purpose of disclosure and the needs of users of financial statements. Accordingly, ISAR published a concept paper on fundamental principles of accounting one year after its agreed conclusions on the elements of financial statements. [31]This paper had a triple purpose: first, it should help national standard-setters in particular those in developing countries to come up with consistent rules and standards. Second, it should provide guidance to preparers and users of financial statements in applying existing standards. Finally, the concepts can help close any remaining gaps in actual accounting practices.

There are several features of the concept paper which deserve underlining. It has the merit of recognising the broad range of information needs of various groups of users which should benefit from general purpose reports; shareholders, other types of investors-actual or potential, regulators and stakeholders including lenders and employees as well as the public at large. To cater for such widespread interests, corporate reporting needs to be accurate, material and consistent and the information disclosed has to be comparable from one company to another. International comparability of information is important to obtain a clear view of the structure and activities of transnational corporations.

The principles contained in the concept paper are broadly drawn and cannot be applied mechanically. They require in all cases judgment but judgment that is enlightened by an agreed set of values according to which the quality of corporate reports can be assessed; representational faithfulness (in other terms "true and fair view"), substance over form, neutrality vis-a-vis the interests of various types of users, prudence, verifiability and comparability.

The concepts paper then elaborates on the elements of financial statements and on recognition and measurement methods relating to the different elements.

It is clear that this document as useful as it is to provide guidance cannot in itself ensure the effectiveness and consistency of national accounting systems. What is required for that purpose is the availability of a skilled accounting profession and a system of corporate governance of which disclosure is an important part. During the following decade ISAR has tried to meet the challenge and to shift its efforts to communication of good practice and support for reform.

C. Moving East- accounting reform as part of economic transition

In the 1990s OECD and ISAR engaged in a major effort to make accounting reform an integral part of the transition to a market economy after the disintegration of the central planning

[31] Multinational Enterprises and Disclosure of Information, Clarification of the OECD Guidelines, OECD, Paris, 1988; Harmonization of Accounting Standards – Achievements and Prospects, OECD, Paris, 1985; see also R. Geiger in Reflexions sur la comptabilite, In Hommage a Bertrand d'Illiers, Economica, Paris 1990, p171.

economies in Central and Eastern Europe and the former Soviet Union. As early as 1990 an OECD conference discussed the different steps needed for fundamental accounting reform[32]. Special programmes were developed for proper valuation of assets in the context of privatisation. Several workshops on accounting reform took place in the Baltic States.[33]

The most significant effort undertaken jointly by ISAR and OECD focused on the newly independent countries of the former Soviet Union with the aim to replace the former system with modern and internationally consistent methods of accounting. The backbone of these efforts were the CIS Council of Accounting Methodology which tried to maintain harmony among the emerging accounting systems of CIS states and the Accounting Information Network (AIN) based in Moscow that served as a tool for collecting information and exchanging experiences (see Chapter Four on Accounting Reform). Even if they had to be discontinued after a number of years both systems served a useful purpose. They raised awareness of the need for accounting reform, constituted a platform for the various user groups to express their views and provided an opportunity for exchanging experiences between CIS participants and western experts. In parallel to these regional activities, ISAR and UNCTAD experts provided support to accounting reform in individual countries such as Russia, Azerbaijan and Uzbekistan.

Facilitated by this preparatory work, a Task Force constituted under the OECD corporate governance program for Russia came up with recommendations for implementing international financial reporting standards (IFRS) in Russia and improving transparency of related party transactions.[34]Both sets of recommendations were accepted by the Russian Government. As Finance Minister Kudrin put it, " For the first time, Russian and international experts have developed realistic, practical and sustainable recommendations based on a deep understanding of the economic situation in Russia. The experts have managed to adapt the best international practices to the conditions existing in Russia."[35]

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[32] Objectives and Concepts Underlying Financial Statements, United Nations, New York, 1989.

[33] Accounting Reform in Central and Eastern Europe, OECD, Paris, 1991.

[34] Implementation of International Financial Reporting Standards in Russia, Russian Corporate Governance Roundtable, OECD, Paris, 2005; Improving Transparency of Related Party Transactions in Russia, Policy Options Paper, Russian Corporate Goverance Roundtable Task Force, OECD, Paris, 2005.

[35] Implementation of ....opt cit p.3.

D. Reaching the frontiers of accounting

With the publication of the agreed conclusions and the concept paper in the late 1980s substantive work on financial accounting peaked in ISAR as well as in the OECD. [36]Both organisations had prepared the ground for international harmonisation which was successfully pursued by the International Accounting Standards Board (IASB) The Financial Reporting Standards (IFRS) adopted by this body now serve as a worldwide reference and are implicitly or explicitly integrated into national systems in particular for the preparation of consolidated accounts. Some of these principles have remained controversial, however. For instance the rule which prescribes “mark-to-market" measurement of financial instruments may need to be reviewed and possibly nuanced in light of the experience with the financial crisis of 2007-2008.

Paradoxically now that there has been a broad alignment with international standards, the frontiers of accounting have become even more visible. Financial disclosure according to internationally recognised standards did not supply regulators and investors with the necessary tools to measure the risks associated with certain instruments in particular structured products and contingent liabilities.

It is not that warning signs were missing. As early as 1988 and 1989 the OECD Working Group on Accounting Standards held two special fora on new financial instruments highlighting their typology and risk configuration. [37]But no action was taken and the inability of the Working Group to come forward with meaningful recommendations was to become one of the reasons for its demise and ultimate disbandment in the early 1990s.

1. The OECD corporate governance principles of 1998 (subsequently revised in 2004) contain a chapter on transparency and disclosure. [38]Yet hardly any guidance can be found there on the quality of corporate disclosures on risks related to the use of financial instruments. Nor were the principles seen by Enron and others as a red flag which would have prevented them from shifting risks and losses to unconsolidated special purpose entities and thus disguising the company's real financial situation.
2. Corporate governance failures are also obvious in the current financial crisis. Risk management systems did not work, corporate boards did not live up to their responsibilities and the so-called gatekeepers (financial analysts and rating agencies among others) did not draw attention to systemic risks. Not did regulators live up to their responsibilities. There is an urgent need to reshape the international risk management system aligning government and private sector responsibilities, sanction misbehaviour and increase board competences and responsibilities.

Nothing in financial reporting standards allows preparers to capture the value of intellectual and human capital (in the absence of commercial realisation). Yet in a recent OECD report "companies that make substantial use of intellectual assets have become the hallmark of

[36] In the 1990’s ISAR turned its attention to non-financial reporting including environmental accounting, corporate social responsibility indicators, corporate governance disclosure and guideline for professional qualifications.

[37] New Financial Instruments, Disclosure and Accounting, OECD, Paris, 1988; New Financial Instruments, Accounting Standards and Harmonization, No. 6, OECD, Paris, 1991.

[38] Principles of Corporate Governance, Revised Edition, OECD, 2004; Guidelines for Corporate Governance of State-Owned Entities, OECD, Paris, 2005.

the modern economy". [39]As shown in the report, accounting standards and the associated financial accounts appear to be inherently unsuitable for recognising intellectual assets.

Finally, accounting standards do nothing about measuring the company's contribution to sustainable development, in promoting good labour practices and enhancing human capital and respecting standards of integrity in commercial transactions. There is no lack of sustainability reports, toolkits and suggested practices but where are the internationally recognised indicators that would allow comparability of the reports and ensure accountability?

To be fair, accountants and standards setters are not to blame, except in situations where they pretend to have the right answers. Accounting and financial reports are about the measurable and even there a considerable degree of judgment may be required. They are unable to assess the quality of the immaterial because no reliable figures can be attached. What then is the way forward to help companies and the investors to advance in unchartered territory and to steer through troubled water? How can international standards help? What could be the future role of ISAR? Of the OECD?

The first step is modesty, recognising the inherent limits of accounting. There is a German saying "Schuster bleib bei deinen Leisten" (Let the shoemaker mind his own trade). Accounting standards and financial statements are not equipped to reflect a company's response to a wide range of societal concerns related to its operations. Nor can financial statements capture the intrinsic value of its intellectual assets. Nor can financial risk situations be adequately captured by balance sheets. What is needed are new standards and approaches for narrative disclosures, qualitative indicators for assessing process and performance and corporate governance systems that are effectively applied.

E. Conclusions

ISAR 25th anniversary is a welcome opportunity to reflect on the challenges ahead in creating value for companies and society, better management of risk and a strong basis for corporate governance. ISAR's conclusions and concepts were a useful first step towards building consensus on key elements of corporate reporting and measurement. They conserve their value today.

Corporate disclosure has to meet the new challenges if it is to remain relevant for users. Beyond financial reporting which should be preserved and where necessary be further developed, emphasis is shifting toward disclosure of non- financial information and narrative reporting (see Chapter 7 on Corporate Governance Disclosure and Chapter 8 on Corporate Social Responsibility Reporting). There is an urgent need for consensus on the appropriate benchmarks and indicators to evaluate processes and to obtain a better picture of performance. As in the area of financial accounting, comparability of non- financial information is of the essence.

Will ISAR, in concert with other international organisations, rise to the challenge?

[39] Intellectual Assets and Value Creation: Indications for Corporate Reporting, OECD, Paris, 2006.

Chapter III
Reporting on Environmental Performance

A. Introduction[*]

During the 1990's ISAR spent considerable time in examining how to report environmental performance. It had become an issue of significance following the disasters at Bhopal and Exxon- Valdez in the late 1980's. At that time, there were no accounting standards, international or national, relating to environmental performance and some questioned their necessity since over the past two decades, some consideration had been given to specific environmental issues in general standards issued by the international and national accounting standard-setters.[1] Further, a number of research studies relating to environmental costs and liabilities had been undertaken by some of the professional associations. Some members of the Group, who had been active in the area of social accounting in the 1970's, however, saw this as an opportunity to expand this area of accounting research as well as respond to environmental issues. After discussion, the consensus of the Group was that this was indeed a topic that was worthy of consideration by ISAR.

This chapter briefly summarizes the following initiatives undertaken by ISAR on this subject:

- review of legislation and corporate practices in member States, and development of recommendations and guidance
- integrating the concept of sustainable development into enterprise accounts
- linking environmental and financial reporting through eco-efficiency indicators.

It should be noted that this was a progressive exercise in that the ISAR surveys of country regulations and company practices always laid the basis for its recommendations on improving disclosure. Thus, research and the resulting guidance was an iterative process. Hopefully, what is covered in this chapter is at least a relatively credible summary of ISAR's pioneering work in this field. The reader should note that it was not always possible in this chapter to fully cover the issues and work undertaken by the authors of the various reports.[2]

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[*] The principal author of this chapter was David Moore. He is grateful for the useful contributions made by Lorraine Ruffing. Rob Gray reviewed and commented on the chapter.

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[2] The reports covered in this chapter included in the annual Reviews of International Accounting and Reporting Issues that are published by the United Nations. For further information and their availability, contact the ISAR Secretariat at isar@unctad.org

B. Review of Legislation and Practices and Development of Recommendations and Guidance

In the initial stages of ISAR's deliberations on the environment significant time was spent on reviewing the national legal requirements and specific accounting and disclosure practices. The objective of these reviews was to try to identify ways in which accounting and disclosures relating to environmental measures could be improved, and whether ISAR could assist in bringing about such improvement by issuing recommendations and guidance on this subject.

1. Annual Report of the Board of Directors

During ISAR's 1989 session, it was noted that public concern about increasing amounts of pollution and waste had led to new national legislation and that world-wide efforts were being made to shift to more environmentally sustainable forms of economic development as the best way to manage pollution and avoid hazardous waste.[3] ISAR's first recommendations relating to environmental measures were very brief and related to *Information Disclosure Requirements Concerning the Annual Report of the Board of Directors.*

ISAR noted that:

The directors' report could usefully include discussion and analysis of social responsibility matters, with particular reference to public safety and environmental protection.[4]

2. Country Survey, 1989-1990

Prior to the 1990 session, in conjunction with Arthur Andersen and Co, a questionnaire was sent to 20 enterprises in 10 countries in sectors that had clear environmental impacts, such as oil, chemicals, pharmaceuticals and metals. The questionnaire sought to determine how these companies disclosed their environmental measures and impacts. It was the first attempt to look at company practices compared to country regulations. The countries selected were Brazil, Canada, Germany, India, Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States. Arthur Andersen offices in the various countries also responded to a supplementary questionnaire that described the relevant accounting standards in these countries.

[3] 1989 Review, p. 56

[4] 1989 *Review*, p.56

The survey results indicated that the quality and quantity of the disclosure were quite limited. While such sparseness was perceived as being due to the lack of specific environmental accounting standards, it was also noted that enterprises were not utilizing *existing* general accounting standards which would have facilitated more detailed disclosure. A number of respondents felt that the lack of a concrete definition of an "environmental measure" made it difficult to segment environmental costs or to estimate what part of the enterprises' investment benefited the environment. There were also a number of obstacles that might discourage an enterprise from adequately accounting for environmental measures, such as the timing of tax deductibility and earnings pressure. It was also noted that environmental regulations tended to be directed towards compliance with certain allowable levels of pollution, and did not specify any particular accounting and reporting treatment. Various regulatory bodies used the following techniques to enforce regulations and penalties imposed for non-compliance with targets:

- mandatory self-reporting
- scheduled and unscheduled visits by authorities
- regulatory mandatory testing to detect harmful releases to the environment
- advanced approval to begin specific operations that would have environmental impacts and
- reaction to publicized events and private reports.

Penalties for non-compliance included the following:

- correction of problem within a given time frame
- imposition of fines (for example, if certain emission levels were exceeded)
- potential prison terms for key management personnel and
- prohibition of operations if compliance was not achieved.

Reference was also made to the US Environmental Protection Agency's mandatory clean-up for the so-called "Superfund" sites and the fact that mandatory clean-up legislation was also being considered in Canada and Germany. Environmental risk insurance coverage was generally available except in the United States.

The various respondents had a number of suggestions on what the accounting and disclosure requirements should be in order to provide a "true and fair view" or/present fairly in accordance with generally accepted accounting principles an enterprise's performance and financial position. They included the following:

- develop an accounting standard specific to this subject
- disclose policies with respect to environmental issues in management reports published together with the financial statements or separately
- disclose quantitative information

- clarify accounting for liabilities
- expand the directors' report
- issue a special purpose report
- provide tax incentives to enable enterprises to be more proactive in their environmental pursuits and make it less burdensome from an accounting standpoint
- remove obstacles, by clarifying what is an environmental measure and what is a technological improvement that would have been implemented in any case.

Some, however, felt that the *status quo* should be maintained, and that environmental issues should not be dealt with separately from other contingent liability issues.

3. Initial Draft Recommendations, 1990

In its session in 1990 ISAR significantly deepened its recommendations on environmental disclosure based on its survey of company practices and country legislation. ISAR recommended that the directors' report include the following items:

- the type of environmental issues that were pertinent to the enterprise and to its industry
- the formal policy and programmes that had been adopted with respect to environmental protection measures (if none, this should be stated; if environmental audits were undertaken, this should be mentioned, together with the results)
- improvements in key areas since the introduction of the policy, or over the past 5/10 years, whichever is shorter
- environmental emission targets, and performance relative to those targets
- the extent to which environmental protection measures had been undertaken due to government legislation and, if so, the extent to which such government requirements (for example, a "reduction of emissions" timetable) were being achieved and
- the financial or operational effect of such measures on capital expenditures, earnings and competitive position for the current period and any specific impact on future periods.

Recommended for inclusion in the notes to the financial statements was a description of accounting policies adopted in accounting for environmental protection measures relating to:

- charging such amounts to operations
- capitalization of such amounts and the amortization policy
- recording liabilities

- setting up provisions and catastrophe reserves
- disclosing contingent liabilities
- insuring against the consequences of harmful effects
- the treatment of grants (government and other) and
- not charging or capitalizing such amounts due to tax rules.

Further, the following amounts, where material, were to be disclosed, together with a description of the environmental measures to which they related:

- the amount charged to operations in the current period
- the amount capitalized during the current period and the accumulated amount capitalized, together with the amortization, or write-off period
- liabilities, provisions and reserves set up during the current period and the accumulated amount and
- contingent liabilities, with an estimate of the amount involved, unless the likelihood of the confirming event is remote or the possible loss cannot be reasonably calculated.

The tax effect and timing of realization thereof were also to be disclosed, together with the amounts of any government or other grants, tax treatment of environmental expenditures along with a description of the amounts to which they relate.

ISAR also felt that there were a number of issues that needed further investigation including:

- clarifying the definition of "environmental measures"
- obtaining more insights into the obstacles limiting disclosure
- eliciting more suggestions regarding methods to improve accounting and reporting and establishing a network which could build support for such methods
- scrutinizing national laws and regulations regarding perceived disincentives for accounting for environmental protection, and exploring possible incentives
- examining accounting for the full cost of the production of goods and services, so that such externalities as resource consumption and other environmental impacts are included, and not just the financial transactions per se;
- special environmental reports that are not financial in nature and
- expanding the survey to obtain a broader response.

ISAR requested that the desirability and practicality of these recommendations be considered by governments, other standard-setting bodies, international organizations and other interested groups. Almost all the governments commenting on the recommendations were in agreement, even to the extent of considering them for incorporation into national regulations. In particular, they thought that enterprises having an impact on the environment should disclose their environmental policies and programmes in the directors' report. Only one government thought that the scheme might be too detailed.

Other accounting groups had much more limited views of and requirements for environmental disclosure. The IASC noted that existing international standards (IASs) required disclosure of accounting policies, but diverse policies were being used to account for like events. The International Assets Valuation Standards Committee noted that, in discharging their responsibilities in making valuations, valuers were to consider the possibility of the presence of environmental pollution.

On the part of industry, there was no uniform view of the recommendations. It varied from complete agreement to complete disagreement, with some feeling that existing standards were sufficient. Some expressed concern that the information might be too voluminous for inclusion in the directors' report.

4. Follow- up Survey, 1990/91

The intent of this survey was to examine in greater detail some of the industry practices identified in the first survey to determine whether they were "desirable and practicable" for other enterprises. Of the 20 enterprises reviewed in the first survey, seven (which were primarily in the chemical and pharmaceutical or metal and mining industries) were found to have disclosed considerable information regarding expenditures relating to environmental measures. The results indicated that each company devoted from one to three pages of its 1989 annual report to the environment. They disclosed the amounts charged to operations and the amount capitalized relating to product safety, process safety and environmental protection. All of the disclosures, however, were made in the narrative section of the annual report, as opposed to the notes to the financial statements. They indicated that the following sources were used to identify costs relating to environmental measures:

- industry guidelines
- guidelines from within the enterprises
- cost accounting for production costs, including specific identification of environmental measures in separate cost centres or general ledger accounts, and allocation of costs based on percentages of total costs
- material and energy balance sheets and
- environmental audits.

These enterprise reports indicated that accounting for environmental expenses was feasible. Definition and allocation difficulties had not posed insurmountable obstacles, provided use was made of non-accounting personnel with the appropriate technical expertise. With respect to environmental liabilities, it was noted that these were recorded when there was a legal obligation to do so. Because of technological, legal and regulatory uncertainties, however, long-term accrued liabilities were often difficult to determine and calculate. Reasonable estimates were nevertheless needed, and ISAR concentrated its efforts on developing additional guidance. At this point it was clear that there were at least three main issues to resolve in order to promote environmental disclosure. First, it was necessary to segment environmental costs from other costs; second, to decide when to recognize environmental liabilities; and third, where to report environmental measures either in the annual report or in special purpose reports.

5. Final Recommendations, 1991

Further consideration was given at ISAR's 1991 session to the recommendations proposed in 1990. ISAR experts were aware that their proposed recommendations had sparked interest among other groups and institutes as well as securities regulators and business executives. ISAR experts from developing countries were particularly keen to see the formal adoption of the proposed recommendations. Weak institutional frameworks and insufficient resources in developing countries made it difficult for governments to enforce environmental protection measures. Therefore, they were dependent on international standards for protection which TNCs would be more likely to respect.

After discussion all the recommendations relating to the directors' report were adopted, with the addition of the following:

- disclosure of any material proceedings under environmental laws and any known potentially significant environmental problem
- the actual amount charged to current operations and
- the actual current and accumulated amount capitalized to date, along with the amortization or writing -off policy, together with a description of the related environmental measures.

Those recommendations relating to disclosure in the notes to the financial statements were significantly reduced to just a description of the policies adopted in accounting for environmental measures, and disclosure of amounts, where material, such as:

- recording liabilities and provisions
- setting up catastrophe reserves
- disclosure of contingent liabilities.

Recommendations for further study included:

- the development of more explicit guidelines and prototype lists of items that should be considered as environmental expenditures
- various aspects of environmental contingent liabilities

- recognition of the impairment of long-lived assets arising from environmental degradation and their related indemnities, if any and
- the methodology for including the impairment of natural and environmental resources in the financial statements, including natural resource accounts.

Given the lack of unanimity on the necessity for the guidance, the Group did change all the “shoulds” to “coulds” as necessary so that it was clear that their “conclusions” were to be considered by interested parties rather than to be required.

6. TNC’s Compliance Survey, 1991/92

A further survey was undertaken in preparation for the 1992 session of ISAR. The UNCTC undertook a review of the annual reports of nearly 200 TNCs and compared the typical best practice to the conclusions agreed on at the 1991 session (see above). The survey covered:

- the disclosure of relevant environmental issues and policies
- environmental improvements
- emission targets
- impact of government legislation
- proceedings under environmental laws
- financial effects of environmental protection measures
- operating costs and
- amount of costs capitalized.

The vast majority of the corporations surveyed (86 percent) had reported at least some information regarding their environmental impacts, although it was primarily qualitative and descriptive, and was inconsistent across industries. There were leaders and laggards; some companies were reporting useful information, whereas others were reluctant to do so. Disclosures also tended to be partial and difficult to compare either across corporations or overtime. As a result, it became very difficult, if not impossible, to gain an objective view of a corporation’s environmental performance over time. Quantitative information of any kind was not common, and, where provided, most often dealt with one of three subjects:

- emission levels achieved (19 percent) and emission levels achieved relative to targets
- financial effects of environmental protection measures (40 percent, primarily European corporations) and
- contingent liabilities (3 percent, primarily US corporations).

One of the main problems highlighted was that environmental performance was not related to environmental targets or expenditures. At its 1992 session ISAR suggested that, given the high awareness of environmental issues, but the rather low level of qualitative and consistent disclosure, it might be time to release minimum guidelines relating to environmental improvements, environment emissions, compliance with existing legislation, and the financial effects of such action on expenditures and liabilities that had been considered at the 1991 session.

7. Conclusions on Accounting and Reporting by TNCs, 1994

At its 1992 session, ISAR was informed that UNCTAD was publishing of ISAR's agreed conclusions to date in, *Conclusions on Accounting and Reporting by Transnational Corporations*[5], for consideration by governments and interested parties. The intent was *to provide minimum guidelines that, if followed, would produce consistent and comparable information over time and across corporations on environmental activities and their financial effects.* [6]

The conclusions on environmental disclosure adopted by the Group in 1991 were included as a section in that publication.

8. Survey Update, 1993/94

The purpose of the third corporate survey undertaken prior to the 1994 session was to determine if progress had been made in the two-year period. The type and extent of environmental disclosures made in both the financial statements and elsewhere in the annual reports of corporations, whether descriptive, quantitative or financial, were analyzed. Just over 200 corporations out of the 277 approached participated in the survey. The industries covered were chemicals, forestry, industrial and farm equipment, metals, motors, petroleum and pharmaceuticals.

Twelve major categories of information were examined:

- policies and views on environmental demands
- major environmental issues and programmes
- environmental targets, standards and output measures
- legal proceedings and information in the notes to the accounts
- financial expenditures
- environmental impacts of the products and services produced

[5] UNCTAD/DTC/1̃ Section XI, Environmental Disclosures, pp. 31-32, United Nations, New York and Geneva, 1994.

[6] 1992 Review, p.82

- research and development activities
- capital investment activities
- operating and production activities
- remediation activities
- information in notes to financial statements (accounts) and
- other pertinent information.

The number of corporations that provided at least some environment-related information substantially increased since the 1992 survey.

While the overall provision of information may have been high, there were still very great differences in the amount and types of information provided. In only two areas, policies and environmental impacts, did the majority of corporations provide some information (60 percent and 59 percent respectively), and the information was typically discursive and often very limited, being little more than statements of good corporate citizenship or general advertising-related product statements. Far fewer corporations provided quantitative or financial information (for example, on financial expenditures, only 28 percent; information in the notes only 27 percent).

Other areas where information provided was relatively rare were remediation, 14 percent, legal proceedings, 25 percent and operating and production activities, 28 percent. Some very large differences emerged across the various industries, the biggest of which related to capital investment activities (ranging from 74 percent for petroleum to only 8 percent for motors) and policies (from 92 percent for chemicals to 40 percent for industrial and farm equipment).

The report stimulated a discussion about the most appropriate place to disclose environmental information. Some felt that the most appropriate place was a separate purpose report on environmental matters. In concluding the discussion several countries said they were already using the conclusions on environmental accounting to amend their companies act and to adopt new accounting standards.

9. Review of Legislation, 1995

Prior to ISAR's 1995 session, an extensive *Review of National Environmental Accounting Laws and Regulations* was undertaken. A questionnaire was circulated to all member States and to a number of professional accountancy organizations and regulatory bodies, universities and individuals considered qualified to respond to the questions. A total of 63 replies were received from 55 countries and from the European Commission.

The questionnaire focused on what areas of environmental accounting required strengthening in each country. Although not specifically requested, a number of respondents also provided details of environmental protection laws. Many respondents replied solely in terms of environmental disclosures on either qualitative or a quantitative basis, and/or environmental provisions and liabilities. The questionnaire described environmental accounting as comprising:

- environmental disclosure
- accounting for sustainable development or full cost accounting and
- environmental performance indicators which may or may not link environmental information directly to the corporation’s financial data.

The replies concerning recommendations for strengthening environmental disclosure were far more numerous and comprehensive than those concerning any other area of environmental accounting. But it remained unclear whether there was a general perception that environmental accounting should extend beyond already existing disclosure and environmental provisions and liabilities that is, whether significant efforts needed to be made by the accounting profession to deal with environmental accounting in much broader terms.

There was general support for the environmental expenditure disclosures suggested by ISAR in its 1994 agreed *Conclusions* (see II C above), but it was not completely clear from the replies whether reporting should also include quantitative and qualitative details on wastes, recycling and energy consumption. Additional areas of disclosure from those not previously suggested by ISAR included research and development, noise and vibration, fines and penalties, protection of land, and the social impact of industrial practices.

The replies also indicated that environmental liabilities and provisions were areas requiring greater development in terms of accounting guidelines. Furthermore, the “non-traditional” areas of environmental accounting suggested for development by some respondents included:

- full cost environmental accounting
- environmental performance indicators
- accounting for sustainable development (mentioned, however, in only one or two replies)
- environmental auditing and
- the relationship between corporate environmental accounting and national accounting for natural resources.

A number of replies noted that concern from the general public and from environmentalists were two factors pressuring corporations to adopt environmental accounting practices on a voluntary basis, but this could lead to inconsistent disclosures, which could undermine the credibility of accounting and reporting.

Furthermore, financial analysts were finding it difficult to identify potential environmental risks because of the poor quality of information made available by companies, and that most of the information provided, including specific quantitative details, was arbitrary and self-determined. In very few cases was it possible to draw direct conclusions about the impact of environmental measures on revenues and profit margins.

10. National and International Standards and Guidance on Various Aspects of Accounting for Environmental Measures, 1998

At the 1998 session a synthesis of current guidance on environmental issues by governmental and non-governmental organizations was presented in the report, *Accounting and Financial Reporting for Environmental Liabilities and Costs within the Existing Financial Reporting Framework.* It covered those environmental costs that could be dealt with under the then-existing financial reporting framework, that is, those that generally arise because of a transaction between the reporting entity and another party, and did not cover the recognition and measurement of costs that were external to the entity, such as the impact of air pollution and water pollution on the environment.

The synthesis included a discussion of

- the need for standards on environmental financial accounting
- definitions, basic concepts
- environmental liabilities and provisions for such liabilities
- environmental costs, disclosure, and pollution allowances and similar economic instruments.

The appendices set out the disclosure requirements required or proposed by various organizations relating to accounting for and reporting on environmental issues and examples of treatment of environmental costs relating to environmental damage. The intent of this synthesis was to provide background information for the position paper that was being considered by ISAR at this session.

11. Position Paper: Accounting and Financial Reporting for Environmental Costs and Liabilities, 1998

At its 1995 session, ISAR had noted that, although considerable research on environmental accounting issues was already underway at the national level, a significant effort was still required to study and identify the most appropriate guidance for governments, enterprises and other interested parties. There was a concern that, without such guidance, differences would arise and member States would find themselves in the position in the future of having to reconcile their independent standards and procedures with those of other member States.[7] In its 1998 session the Group returned to discuss a number of thorny issues that had remained since the beginning of its work, namely the definition of environmental costs and the recognition of environmental liabilities. During the 1998 session ISAR considered the report: *Environmental Financial Accounting and Reporting at the Corporate Level.*

[7] 1998 *Review*, p. iii

Its purpose was to *provide assistance to enterprises, regulators and standard-setting bodies on what was considered best practice in accounting for environmental transactions and events in the financial statements and associated notes.*

The focus of the paper was on the accountability of the management of an enterprise for the financial implications of managing the environmental resources entrusted to it and that were linked to the enterprise's activities.

The position paper took up a number of issues. It covered the need to account for environmental costs and liabilities. How an enterprise's environmental performance affected its financial health and how financial information relating to such performance could be used to assess environmental risk, and the management of such risk, were deemed to be matters of concern to investors and their advisers. Creditors had similar needs, but there was an added factor that they might have to take on the responsibility for rectifying environmental damage should a debtor default on a loan for which land had been pledged as security. The potential impact environmental costs might have on financial returns was considered to be of particular interest to shareholders and owners.

Regarding the recognition of environmental costs the report recommended that they should be recognized in the period in which they were first identified, and that, if they met the criteria for recognition as an asset, they should be capitalized, and amortized (although accounting standards at the time of the preparation of this chapter could require testing for impairment, rather than amortization); otherwise they should be charged to income immediately.

The discussion on environmental liabilities covered the entire range from contingent to constructive to equitable liabilities. One major contribution of ISAR was its debate on "constructive obligations" vs. "equitable obligations". A legal or *constructive* obligation to incur an environmental cost required the recognition of an environmental liability. Many ISAR experts felt that it was necessary to go beyond constructive obligations if one considered substance over form. Constructive obligations arose out of a business-type obligation or a business policy. Some experts felt that equitable obligations could be omitted because they were difficult to determine and could constitute a subset of constructive obligations. However, other experts insisted that not all equitable obligations were constructive. An example was given of TNCs which often accounted for and reported on their environmental liabilities arising from legal obligations in developed countries but were silent on such liabilities arising in developing countries where there was no such legislation. In the view of some experts the term "equitable obligation" would close a loophole, in that, most companies reported liabilities only when they had "no discretion" **not** to report them. The concept of obligations needed to be expanded beyond legal obligations, which were too narrow, particularly when viewed in an environmental context. It was pointed out that the then-existing conceptual accounting frameworks mentioned equitable obligations. The Group agreed that the term "equitable obligation" should remain in the guideline. This concept, however, has not been accepted by the IASB or FASB or most of the national accounting standard-setting organizations.

Various aspects of "environmental damage" where there was no obligation to rectify such damage were also examined. ISAR called for note disclosure of the extent of such damage, and consideration of whether a contingent liability might need to be disclosed. Removal of long-lived environmental assets and site restoration costs were also covered in this section.

On the recognition of recoveries, the report required them to be separately recorded unless there was a legal right of set- off. The measurement of environmental liabilities was also dealt with and the report recommended the provision of a best estimate when there was a measurement difficulty, together with note disclosure on how the estimate was arrived at. For those rare occasions where an estimate was not possible, this fact and the reasons should be disclosed in the notes to the financial statements. For environmental liabilities that would not be settled in the near term, a present value measurement was preferred by ISAR, but measurement at the full current cost amount was also deemed acceptable.

Lastly, disclosures relating to environmental costs, environmental liabilities and accounting policies, as well as some general disclosures relating to the nature of the enterprise's liabilities and environmental issues that were pertinent to the entity and its industry were examined.

The report was initially referred to as an "Interim Statement of Best Practice Guidance." The appropriateness of this description, however, was questioned by some member States' delegations. It was noted that "best practice" was evolving and that the words "Interim" and "guidance" had the connotation that the report was a "proposed standard," whereas standard-setting was not within ISAR's mandate. It was therefore agreed that the report should be presented as a "Position Paper."

The report did not replace the 1994 agreed *Conclusions*, but rather expanded upon and clarified those aspects that related to accounting and financial reporting. Its purpose was to bring together in one place most of the issues that had been raised in corporate accounting for, and reporting, environmental impacts. Whatever title was attached to this work, it remains the only comprehensive statement published on this subject by an accounting organization. This is in contrast to some international and national standard-setters which have considered a number of specific environmental accounting issues for inclusion in their general accounting standards.

C. Other Major Studies Undertaken by ISAR

Besides surveys of regulations and practices, ISAR undertook a number of other innovative studies which contributed to the field. They are briefly described below.

1. Environmental Bibliography

In the early stages of ISAR's consideration of this subject, when there was little authoritative guidance, the Transnational Corporations and Management Division of the United Nations published *Environmental Accounting: Current Issues, Abstracts and Bibliography*. [ST/CTC/SER.B/9] ISAR experts and academics had suggested to the UN that such a publication would help those who were beginning their studies in this field.

In its first section, the publication discussed environmental issues, summarized then-existing requirements and corporate accounting practices, set out potential accounting and disclosure changes both within and outside the then-existing accounting model, including accounting for sustainable development, and provided some observations on environmental auditing.

The second section contained a bibliography, divided between environmental accounting, general issues, accounting issues, auditing issues, and sustainable development issues. Abstracts of some major articles on this subject were also included.

2. Comparison of Disclosures in Home and Host Countries

At the 1995 session, a report on *Disclosure by Transnational Corporations of Environmental Matters at the National Level*, prepared by Claus Noppeney of the University of St. Gallen, Switzerland was presented for ISAR’s consideration. The report was restricted to a comparison of the environmental reporting practices by TNCs in host countries, all of which were developing countries, with their home countries, which were developed countries. It was based on a presumption that, in some countries where disclosure of environmental information is somewhat weak, TNCs may not always disclose information locally even though it may be disclosed in a consolidated format in the home country, where the reporting requirements were more extensive. This presumption was based on the many statements made over the years by ISAR experts from developing countries.

The analysis used the UN Environmental Programme’s five levels of corporate environmental disclosures a basis:

- Stage 1: “Green Glossies,” newsletters, videos, short statement in annual report, etc.
- Stage 2: a special initial environmental report, often linked to a formal policy statement.
- Stage 3: annual reporting linked to the environmental management system, but more text than figures.
- Stage 4: the provision of TRI-style performance data on an annual basis.
- Stage 5: sustainable development reporting.

Thirty- six subsidiaries from three countries (India, Malaysia and the Philippines) participated in the investigation. Twenty-nine were from the chemicals industry and seven from the food industry. The general finding was that environmental disclosures in the host countries were very different from those in the home countries. In general, disclosures in the home country had reached stages 3 and 4, whereas those in the host country rarely covered aspects beyond stage 2. The situation also varied by both country and industry. India tended to disclose more information than the other two countries, and the food industry was more reserved about such disclosures than the chemicals industry. Thus, the earlier statements made by ISAR experts were confirmed.

D. Sustainable Development

Keeping ISAR members informed of related subjects and providing background material and other information to help them understand the issues involved was deemed extremely important. In this connection, a number of research papers and other publications were commissioned by ISAR.

In the late 1980s and 1990s, although there was a growing body of extensive research on various aspects of accounting and environmental issues, there was relatively little which addressed sustainability and sustainable development. In particular, if business was able there was an attempt to go beyond traditional environmental accounting and begin to embrace accounting for sustainable development. But, it was unclear how they might go about it. While evidence was building about how commercial enterprises were learning to develop the win-win opportunities offered by the developing environmental agenda, there remained the underlying question how to move from the theory to the practice of sustainable development—especially at the enterprise level. At the 1995 session, two reports were presented on how to move the boundaries of traditional financial accounting forward to meet the demands for sustainable development.

1. Incentives and Disincentives for the Adoption of the Concept of Sustainable Development by Transnational Corporations

The objective of this report was to explore the understanding of TNCs of the concept of sustainability and sustainable development based on questionnaires, interviews and mini-case studies. What did the concept mean for the enterprise and its business activities, and what role could, and should, accounting play in pursuit of sustainability? The report was prepared by Professors Rob Gray and Jan Bebbington of the Centre for Social and Environmental Accounting Research, the University of Dundee, now based at the University of St. Andrews, Scotland.

In the background section of the report, it was noted that, while traditional activity and environmental degradation were closely linked, it was far from clear what degree of responsibility should be, or could be, laid on the shoulders of business. The general definition of sustainability provided by the 1987 Brundtland Report referred to development which "… meets the need of the present without compromising the ability of future generations to meet their own needs."

The report noted that, while this proved to be a good starting point, it was far too general a definition to be practicable. Sustainability was not only an environmental issue, it was also a social issue. The report considered the relationship between "natural" capital, which was often treated by business as a "free good" that was not registered in measures of economic success, such as GNP or accounting profit, and was not subject to accounting and reporting requirements, and "man-made" or created capital.

The report further suggested that a sustainable economic system was one which explicitly protected all critical capital, renewed some elements of other natural capital and/or employed additions to man-made capital to substitute for depletions of natural capital. The intra-generational demand for sustainability required that the massive inequities between nations be addressed. No economic system was currently sustainable under this analysis, and the question that arose related to the extent and size of the gap between then-existing practices and the desired state of sustainability.

The report analyzed whether business could be sustainable under the then-existing economic arrangements, and noted that, as a minimum, a sustainable business was one which left the environment no worse off at the end than at the beginning of each accounting period. For full sustainability, the business would also redress some of the excesses of current un-sustainability and consider inter-generational inequities. Few, if any, businesses, especially those in the developed economies, came anywhere near to anything that looked like sustainability. It was felt that it would be wholly unreasonable for society to expect a business to become sustainable under its own initiatives. So if economic systems were to move towards sustainability, the "rules of the game" would have to change. Since business was not, and could not be, sustainable under the then-existing economic conditions, the issue to be investigated was not business sustainability *per se*, but the steps companies were taking to reduce their un-sustainability. The report then set out the important roles that accounting could play. It noted, and listed, the negative roles that could be played, in the sense of sending signals that encourage environmentally-malign behaviour and in offering resistance to new initiatives designed to encourage more socially and environmentally sensitive behaviour. On the other hand, a very positive role could be played in helping companies develop environmentally and socially sensitive policies. These actions were set out in a table in the report and covered reducing un-sustainability and recognizing the demands of sustainability, eco-efficiency issues, and eco-justice issues.

The report stressed that it was not necessarily the case that accounting and financial systems needed to play an all-embracing role in an organization. It was quite possible that an organization serious about sustainability might take every step to reduce the influence of conventional accounting and financial systems. The report examined the role of accounting in influencing the environmental response by performance-centred companies, where the accounting system was often dominant and values-centred companies, where the accounting system was less important.

The report noted that performance-centred companies with a passive accounting system are driven by stock market, profit, and financial performance appraisal, whereas those with an active accounting system had methods of accounting that were explicitly linked to company goals. For values-centred companies, for those with a passive accounting system, other mechanisms might be used to identify financial efficiency, whereas for those that had active accounting systems, such systems were actively part of management process – but in a very constrained sense. The outcome of these differences meant that, in the values-centred company,

any development of the accounting and financial systems to encourage more environmentally and socially-sensitive behaviour might well be counter-productive. The values of these companies would drive behaviour in these directions and the accounting systems would simply follow as required. On the other hand, for the performance-centred companies, it was highly unlikely that much progress could be made on either the eco-efficiency or the eco-justice fronts without the developed support of refined and improved financial systems.

These issues were further investigated by way of a selection of interviews plus a questionnaire to companies in different countries, different industries and of various sizes, with the overall results being reported under the headings of the nature of sustainability, influences on understanding sustainability, definition of sustainability, formal recognition of sustainability in the company, encouraging moves towards sustainability, activities which encourage moves towards sustainability, constraints on the pursuit of sustainability, and accounting and financial systems and issues. The following tentative conclusions were drawn:

- Most companies˜ even leading companies˜ had yet to examine fully the nature of sustainability and its implications for current practices.
- While companies did not appear to have fully embraced all the eco-efficiency implications of sustainability, they did seem sensitive to and supportive of the eco-justice elements of the concept.
- The dominant conclusion drawn from the study was that further business-related research needed to be undertaken and much clearer guidance given to businesses world wide on what sustainability might mean for business.
- Environmental managers were constrained in the actions they could take to move their companies along the path to sustainability. Traditional accounting comprised an important part of this constraint. The resultant conflict was more likely to occur in accounting/performance-centred organizations than in values-centred ones, and in very large, centrally controlled organizations than in smaller or decentralized companies.
- The use of life cycle assessment (LCA) and/or the eco-balance sheets/ökobilanz approach to understanding a company’s interaction with society and the environment seemed to offer considerable promise.
- The central message about the assistance that accounting systems could provide to companies addressing environmental issues had not yet been fully received. Accounting needed to be fully integrated into a company’s Environmental Management and Audit Systems (EMAS) strategy.
- Other, more innovative approaches to accounting and sustainability needed to be further researched, applied and disseminated.
- It needed to be recognized that companies could not be sustainable in the then-existing economic climate. The costs of sustainability-related adjustment would be considerable and to ask any company to act entirely as a philanthropist and/or avoid pursuit of traditional business opportunities was quite unrealistic.
- The pursuit of sustainability would involve all parts of society. Voters, consumers, employees, management, politicians, etc. would have to address the issues as they related to their own sphere of influence. Likewise, businesses and governments would have to confront challenging and difficult choices. In particular, national and pan-national governmental organizations would have to

address sustainability firmly and produce an overview and guidance which only they were equipped to provide. Only then, within this wider context, might any realistic expectation of sustainable businesses be articulated and realized.

2. Accounting for Sustainable Forestry Management, 1994

ISAR went beyond the conventional issues in environmental accounting and addressed how one could account for and report transactions or events that promote sustainable development at the enterprise level. Enterprises face increased demands for expanded environmental accountability from consumers, institutional investors and environmental activists. The latter are concerned about the enterprise's environmental stewardship of shared, common resources such as rivers, water and forests. In general the public expects progressive companies to exercise environmental stewardship over a wide range of corporate resources.

While there is a high degree of transparency over an enterprise's use of financial resources, there is little environmental transparency regarding their use of natural resources. In 1994 ISAR began to explore the kinds of non-traditional accounting systems that could better integrate environmental and economic data. Up to that point ISAR's work on environmental accounting had tried to improve traditional financial accounting information. ISAR realized that the logical first step would be to develop new models for internal reporting purposes.

Traditional financial reporting takes a photograph of an enterprise's financial condition at a given point of time. The timeframe is relatively short, a given day for the balance sheet and the past year for the income statement. The photograph is also narrow in scope and includes only the enterprise and excludes the natural resources upon which it is dependent.

UNCTC commissioned a case study of the forestry industry where sustainable development measures were needed to ensure that its activities were carried out in a manner which minimized its environmental footprint and maximized the value of the resource (UNCTAD/DTCI/4). It focused on the forest industry for three reasons:

- it was an industry that could provide empirical data on both the extraction and the manufacturing phases of a product life-cycle
- it was an industry with a long-term perspective
- it was under public pressure, in Canada, to increase its investments in technology and practices to preserve Canada's forests and watersheds.

Facing environmental investments that could approach Canadian $5 billion by the year 2000, it was clearly an industry that needed information about the costs and benefits of environmental investments. It was also an industry that was trying to define what sustainable development meant at the enterprise level. The study was undertaken by Daniel Rubenstein, Office of the Auditor General, Canada, with comments provided by a project team. Through interviews with enterprises in the forestry sector, the project team created a fictional, but representative forest products enterprise, Kirkland Forest Products Ltd.

The case study focused on how to operationalize the concept of sustainable development at Kirkland. The definition of sustainable development required that the accounting entity include both Kirkland and the natural resources upon which it was dependent which included a forest and a river system. Once the boundaries were established, Kirkland would be in a position to estimate the costs of converting to a more sustainable development mode of operations.

Whether an enterprise wishes to operate under a business-as-usual mode of operations complying with existing regulations, or whether it wishes to embark on a more sustainable development mode of operations is a policy issue for senior management and the board of directors. The role of accountants is to provide the information and analyses for informed decision making. Accountants while not driving the bus, are up in the front seat, as part of a multi-disciplinary team providing a roadmap for those in the driver's seat. Accountants can contribute, drawing on areas of traditional accounting such as cost accounting, financial analyses and capital budgeting.

The starting point was to identify what aspects would have to be included in the new accounting framework which were consistent with the principles of sustainable development. They were:

- the initial timeframe for accounting would have to be at least two generations
- measurement of the degree of risk of impairment of natural resources
- a sustainable ecosystem that would not necessarily be an unchanged ecosystem
- different definitions of sustainable development; for some people it is 40 or 100 years, for others 150 years etc; this meant that environmental costs would be estimated based on a continuum of definitions each with a different set of cost parameters and potential benefits.

Sustainable development required estimating the costs and benefits of a shift from current business practices to a mode of operation deemed more compatible with the concept of sustainable development. Traditional financial accounting restricts the definition of assets and liabilities to those things a company "pays for". Excluded from this is natural capital not "owned" but used by the enterprise. Once Kirkland had analyzed the costs of sustainable development, it moved towards a strategy of full compliance with the law plus selective response to public concerns which allowed the enterprise to be competitive. This committed it to sustained yield practices and sensitivity to the long term needs of other forest users.

Applying the above principles of sustainable development the case study analyzed the financial impact of sustainable development practices with regard to the natural resources upon which the enterprise was dependent. A significantly longer period than the conventional one year time frame was adopted by accountants and management in order to properly measure the financial and environmental performance of commercial activities. Stewardship accounts were developed. Initially they would be used as an internal management tool, but once they had been sufficiently developed they could be used for external reporting.

The case study also presented a stewardship report that a multi-disciplinary team of scientists, silviculturalists and managers prepared for the board of directors of the fictitious company. It was perceived that this report would be used by the board, senior management and the corporate budgetary committee to set a level of investment in the forest.

The case study established that enterprises, with sufficient effort and commitment, could translate the general concept of sustainable development into concrete action plans that could be implemented over time. It also established that enterprises can produce a definition of sustainable development, by line of business activity, that could allow enterprises to operationalize the concept of sustainable development and develop the internal management information to support this transition. Once enterprises had solid evidence of the benefits of such changed operations, they could take the next logical step and improve environmental transparency by reporting these results to external users.

E. Integration of Environmental Performance Indicators and Financial Information

1. Case Studies

At the 1995 session, a report on the *Integration of Environmental Performance Indicators with Financial Information by Transnational Corporations* was presented. The main focus of this report was to examine ways by which environmental performance indicators could be integrated into a framework of general business performance measures. The objective was not to obtain a quantitative record of certain corporate practices, but to use case studies of six Swedish enterprises as a point of departure for studying the potential to integrate environmental information with financial information. The project was undertaken by Soren Bergstrom, Bino Catasus, Maths Lundgren and Hans Ramo, of the University of Uppsala.

The introduction noted that, generally, environmental performance indicators may be used for several reasons, such as an assessment tool within internal environmental management systems, a way to inform potential investors and shareholders, a media for dialogue and negotiations with authorities and with suppliers and customers, etc. Yet it was an open question as to whether that kind of information should be integrated into regular company reports, if it should be integrated in some other way, or if it would be better for such information to be reported separately. The report noted that disseminating the experiences of ways to integrate performance reporting might both facilitate “responsive” practices and, indirectly, raise the general expectation for enterprises to be responsive. If this were successful, it could lend support for international standards for environmental regulations and taxation, which, alongside with explicit standards for performance information disclosure, could give responsive enterprises a competitive advantage. It would also give readers of advanced performance reports solid guidelines on how to interpret the facts and figures.

The report then examined two broad classifications of management behavior and the propositions on which they were based, noting that one could be classified as "empirical" and the other as "normative". There was also a brief discussion of sustainable development as a managerial issue and the status of corporate environmental reporting.

The case studies covered a recycling company, a hotel management company, the Swedish branch of a well-known fast food chain, a car manufacturer, one of the largest forestry companies in Sweden, and a medical drugs company. A brief overview of the current reporting practices in the companies was provided. It noted that:

- Environmental issues were acknowledged by all case study companies as being a general management responsibility. With varying degrees of explicitness, group management expected subsidiary units to take proper initiatives for the environment, with reporting and quality assurance being handled by special units of staff.
- Environmental issues were "most often" reported to the CEO and board, but not always on a regular basis and not always identified as environmentally relevant.
- Safeguards against incorrect internal thinking about environmental conditions did not seem to be the normal case, although it did happen.
- Environmental conditions were only disclosed to the public at a low level of information quality: policies and cost estimations occurred alongside physical variables, but there was no environmental reporting.
- Environmental conditions were not being integrated into general performance reporting, but, within some of the companies, the issue was being discussed.

The report assessed the potential for developing environmental reports in monetary terms, the potential for developing holistic performance indexes, and the potential for refining the structure of performance information. The conclusions highlighted the differences between industries and the conditions for an enterprise to develop a practical environmental awareness and the importance of market and legislative pressure.

2. Best Practice Techniques

The Group saw the need to link environmental and financial performance. There was the assumption that improved environmental performance could lead to higher, more sustainable financial (shareholder) value. However, given the many variables which affect financial performance, it was difficult to establish the link. Many experts saw the concept of eco-efficiency and its measurement as one way to establish such a link. Eco-efficient enterprises use fewer resources and cause fewer emissions while producing the same output as their competitors. The World Business Council on Sustainable Development described it as " maximizing value while minimizing resource use and adverse environmental impacts". Eco-efficiency can be measured by combining environmental performance indicators with financial indicators, thereby establishing a link between environmental and financial performance.

At the 1998 session, ISAR discussed the report *Linking Environmental and Financial Performance: A survey of Best Practice Techniques*, which had been prepared by Roger Adams of the Association of Certified Chartered Accountants in the United Kingdom.

The report explored the limitations of the conventional financial reporting model as a vehicle for reporting environmental data, identified the methods being used by leading-edge enterprises to measure and communicate environmental performance, identified the techniques that were being used by financial sector stakeholders to integrate environmental performance data into their investment decisions, reviewed evidence concerning any relationship between environmental and shareholder value, and made recommendations concerning the way(s) in which environmental performance was communicated in external corporate reporting. It also suggested ways in which the use of environmental performance indicators might be improved.

The report concluded that, in general, the weight of available evidence indicated a strong and growing interest in corporate environmental performance, not just from the relevant national or regional environmental regulators, but also from a variety of stakeholders, most noticeably, those from the financial sector. Those stakeholders were finding it difficult to interpret corporate environmental disclosures on a systematic basis because of the voluntary nature of such reporting, and because the general lack of standardization regarding the computation and disclosure of environmental performance indicators prevented intercompany comparisons.

Recommendations relating to annual report disclosures and improving stand-alone environmental reports were set out in the report.

3. Methodology for Standardizing Eco-Efficiency Indicators

ISAR saw that to make the concept of eco-efficiency useful a number of definitional and measurement problems would have to be resolved. It set up a working group to select, develop and standardize environmental performance indicators. The working group devised a method by which the environmental and financial performance indicators could be used together to measure an enterprise's progress in attaining eco-efficiency.

The method to link environmental and financial performance was presented in the report, *Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardizing Eco-Efficiency Indicators* during the 2000 session. It was published by UNCTAD in the same year (UNCTAD/ITE/TED/1). The link was established by calculating eco-efficiency indicators. An eco-efficiency indicator is the ratio between an environmental and financial indicator or variable. It measures the environmental performance of an enterprise with respect to its financial performance. The problem with constructing eco-efficiency indicators was that there were no agreed rules or standards for recognition, measurement and disclosure of environmental information or indicators. Most importantly, there were no rules for consolidating environmental information for an enterprise or for a group of enterprises so that it could be used together and in line with the enterprise's financial data.

The purpose of the report was to provide guidance on the identification, selection and construction of the most useful environmental performance indicators and eco-efficiency indicators, which should, as a minimum, be globally recognized, internally consistent and comparable. The main problem in using environmental performance indicators was the lack of consensus over the most appropriate ones to measure and communicate environmental performance. The lack of consensus permits enterprises to pick and choose among indicators and to switch indicators from year to year. As a result it is difficult to compare the performance of different enterprises or to determine whether an enterprise is improving over time.

Environmental performance indicators could be either generic or industry-specific. ISAR chose to develop generic indicators that all enterprises could use in order to establish a basis for comparison.

The report identified five generic environmental indicators and a financial performance indicator that met the test of global recognition. The five effluent-based environmental performance indicators selected were:

- energy purchased
- water used
- global warming emissions
- ozone depleting emissions and
- solid and liquid waste.

These were measured in physical units purchased, used or emitted. Value-added was selected as the financial performance indicator. Combining the two indicators (environmental and financial) gave a measure of eco-efficiency or how the enterprise added value while minimizing resource use or environmental emissions. For example, primary fossil energy use divided by value added would give the energy usage per dollar of the value-added of a company. This could be measured over time to monitor any change in eco-efficiency.

The report introduced a method for building environmental performance indicators that was consistent with that used for financial performance indicators, and that was considered to resolve the frequent problem that the reporting entity for financial data differed from that for environmental data.

4. A Manual for the Preparers and Users of Eco-Efficiency Indicators

In order to assist preparers and users of eco-efficiency indicators, UNCTAD published a manual in 2003. [UNCTAD/ITE/IPC/2003/7]. It was prepared under the overall direction of Lorraine Ruffing and Con Bartel. Its purpose was to

- provide guidance on how to define, recognize, measure and disclose environmental and financial information as specified within the traditional accounting and financial reporting frameworks;

- improve and harmonize the methods used so that enterprises would be able to report eco-efficiency indicators in a standardized format, in a manner that was meaningful to decision makers and could be compared across enterprises; and
- complement and support existing reporting guidelines (for example, the UN Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI)).

The manual was developed to enable enterprises to report their eco-efficiency performance for the five generic environmental issues referred to above (water use, energy use, global warming contribution, ozone depleting substances, and waste). These indicators were chosen since they addressed worldwide problems as reflected in international agreements or protocols, and were generic rather than sector specific in that they could be used by enterprises in all sectors. The manual also presents the accounting treatment of the financial indicator—value added-- used for constructing eco-efficiency indicators. The manual dealt with the issue of consolidation of the environmental data for the enterprise as a whole.

Main Environmental Publications

1992 Environmental Accounting: Current Issues, Abstracts and Bibliography

1994 Conclusions on Accounting and Reporting by Transnational Corporations: Environmental Disclosures

1994 Accounting for Sustainable Forestry Management: A Case Study

1998 Accounting and Financial Reporting for Environmental Costs and Liabilities

2000 Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardising Eco-Efficiency Indicators

2002 Accounting and Financial Reporting for Environmental Costs and Liabilities: Guidance Manual (3rd edition)

2004 A Manual for the Preparers and Users of Eco-Efficiency Indicators

Note:

The above reports are either published separately or included in the annual *Reviews* of *International Accounting and ReportReporting Issues* that are published by the United Nations. For more information visit the ISAR website :www. Unctad.org/isar or contact the ISAR Secretariat at isar@unctad.org .

F. Presentations of Related Work Undertaken by Other Groups

At most ISAR sessions, representatives were given the opportunity to make oral presentations on developments underway in their States or organizations and this inevitably included initiatives relating to environmental protection measures.

1. Corporate Environmental Balance Sheets

During the 1995 session a report, *A Practical Approach to Integrated Environmental Accounting: AGIP Petroli Case Study*, was presented which focused on a methodology developed by the Fondazione Eni Enrico Mattei for preparing corporate environmental balance sheets. These balance sheets aimed to satisfy both private and public needs for comprehensive information on company flows of inputs, outputs and monetary values related to environmental issues. Such balance sheets had a flexible structure that could be shaped and aggregated at different levels, making them useful for both private and public decision-making.

The perceived usefulness from a company basis included the ability to identify causes of the inefficient management of natural resources, to simulate future situations, and to plan and manage measures to improve environmental performance. Avoiding double counting, the methodology allowed different consolidations, enabling an analyst to produce a balance sheet for a group of companies that was similar in concept to a financial consolidated balance sheet. From a government perspective, the structure was deemed to be useful in understanding, at local or national levels, the pressure of a specific industrial sector on the environment and the financial resources needed to reduce that pressure. It was deemed possible to calculate the balance sheet for a geographical area by making consolidations of different units, sources of pollution and resources used by consumers. The balance sheet was not just theoretical; it had been implemented in some large companies operating in Italy. The report focused on one of these companies, Agip Petroli, to demonstrate the perceived usefulness of the methodology as a management tool and as a provider of information to external users.

The introduction noted that the environmental balance sheet is an information instrument theoretically similar to a financial balance sheet. While the latter contains economic values, the former collects and rationalizes relevant data for environmental management. It noted that, compared with traditional accounting practices, environmental accounting did not have a formal equivalent of the balance sheet on which executives of companies should base their decisions. Investments for environmental management were still being planned on the basis of emotional perception of problems without a consistent framework to support decisions. The proposed balance sheet structure was considered to be an efficient provider of all of the relevant quantitative information that is necessary for effective environmental management: physical flows and monetary values of inputs and outputs and data on expenditure for environmental protection.

The methodology involved a collection and analysis of three physical data sets: on inputs and their related economic value; on products and their related economic value; and on emissions and their related environmental expenditures. It tried to link the three sets in order to be able to assess the economic impact of pollution control and for managing the efficiency of raw materials consumption. Each of the three sets was considered, together with the problem of determining the classification of environmental expenditures. The experience of Agip Petroli in implementing the methodology and the problems encountered were then considered.

2. Environmental Auditing

During the same session Peter Wilson, a representative of the European Commission, presented a paper on *The European Community's Eco-Management and Audit Scheme*, which had become effective on 13 July 1993. The scheme enabled industrial companies to establish on a voluntary basis, environmental protection goals and to have their compliance with these goals audited externally. Participating companies were to provide full details to the public of their environmental performance, including the environmental statement and its validation by accredited environmental verifiers, within agreed norms of commercial confidentiality. The environmental statement was to include a description of the company's activities at the site considered; an assessment of all the significant environmental issues of relevance to the activities concerned; a summary of the figures on pollutant emissions, waste generation, consumption of raw materials, energy and water, noise and other significant environmental aspects, as appropriate; other factors regarding environmental performance; a presentation of the company's environmental policy, programme and management system implemented at the site concerned; the deadline for submission of the next statement; and the name of the accredited environmental verifier.

G. Disseminating ISAR's Guidance

The formulation of guidance on a particular disclosure issue is not an end in itself. Due to a generous grant from the World Bank and cooperation with the UN Environmental Programme and the Association of Chartered Certified Accountants (ACCA), ISAR was able to disseminate its guidance on environmental accounting through ten national or regional workshops. The objective of these workshops was to make policy makers and others aware of the state of the art and the techniques that were appropriate and practicable to link financial and environmental performance. Between 1998 and 2001, UNCTAD partnered with professional institutes, business associations and banks in Africa, Asia, Latin America and the Middle East to hold workshops in Argentina, Bahrain, Brazil (2), Czech Republic, Egypt, India, Kenya, Malaysia and Thailand.

As a result of the workshops, accountants learned how to apply the guidelines (described in sections E and K) in their work as preparers of corporate reports. In addition, professional associations and standard-setters were able to use the guidelines to formulate their own regulations and the UN training materials to strengthen the capacity of their members to deal with this issue. For example, the Stock Exchanges of Thailand and Kuala Lumpur used it to formulate their guidance, and the Chinese Ministry of Finance used it to shape a Chinese accounting standard on the topic. The Arab Society of Certified Accountants wrote to each national regulator requesting that the guidelines be tabled for adoption. The Philippine Institute of Certified Accountants and the Malaysian Institute of Accountants incorporated the training materials into their syllabi and held additional workshops in Asia.

It should be noted that this dissemination occurred because of the availability of extra-budgetary resources and the pro bono contributions from many partners. While accounting training is not an overly popular activity among development donors, environmental protection is a popular topic and this explains why ISAR was able to access the necessary resources. Unfortunately, it was not possible to repeat this experience in disseminating ISAR's guidance in other areas.

UNCTAD also invited members of professional institutes and business associations, as well as others with a teaching background, to a "train the trainers" course in Geneva in the fall of 2000, thus providing national institutes and regional associations with the capacity to continue this training.

A workshop manual, *Accounting and Financial Reporting for Environmental Costs and Liabilities*, was first published by UNCTAD in 1998; the third edition, revised by Andrea Coulson, of the University of Strathclyde, was published in 2002. [UNCTAD/ITE/EDS/4]

H. Impact of ISAR's Activities on Work Undertaken by Others

ISAR's goal in undertaking this subject was not just to provide guidance to standard-setters in member States, but also to stimulate other organizations to undertake work in this area. Just as ISAR had incorporated some of the work undertaken by others in developing its own recommendations and conclusions, it was hoped that initiatives undertaken by ISAR would be of value to others. Undoubtedly, what ISAR did was to raise issues, to lead the way and to make such matters "thinkable" for the accounting profession.

The Commission of the European Communities specifically acknowledged the ISAR Position Paper that was issued in 1998 in a recommendation relating to environmental issues. In *COMMISSION RECOMMENDATION of 30 May 2001 on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies*, it noted (paragraph 16) that *the recommendation is also influenced by a statement of position on Accounting and Financial Reporting for Environmental Costs and Liabilities prepared by the United Nations Working Group on International Standards of Accounting and Reporting.*

The Canadian Institute of Chartered Accountants Research Report: *Environmental Costs and Liabilities: Accounting and Financial Reporting Issues* also makes reference to ISAR initiatives, as do a number of studies issued by the academic community.

During the course of its workshops, ISAR was able to influence a number of regulatory authorities in development banks, in stock exchanges, in ministries of finance. Accounting associations and institutes were also able to assist their membership in integrating environmental issues into their accounting practices through ISAR's guidance and training materials.

While we can point to a number of specific instances where ISAR's work was explicitly acknowledged, tracking and identifying influence is a notoriously difficult process. What does seem incontrovertible, however, is that ISAR was a very early entrant to this field and had a major influence in, possibly more indirect ways. The ISAR reports raised the issues and led the way where previously most regulatory and accounting bodies were relatively passive. The careful and measured way in which ISAR identified issues and linked them with traditional accounting skills, approaches and knowledge commended itself to accountants who where consequently able to experiment and explore these important questions. ISAR reports became, throughout the 1990's and into the early 21st century a key ingredient in books, papers and research in and around accounting and environmental and sustainability issues. Their influence on academic and professional writing, teaching, textbooks and guidelines remains clear today.

I. Conclusions

As noted in this chapter, ISAR undertook a number of activities relating to the role of governments, enterprises and national and international accounting bodies with respect to environmental protection measures. At the outset, ISAR initiated many technical studies of legislation and accounting practices dealing with environmental measures to establish the "state of the art" and identify strengths that could be built upon and weaknesses that needed to be eliminated. These findings underpinned ISAR's recommendations and guidance.

It provided arguably the first set of disclosure recommendations on this subject for consideration by governments and interested parties. It thus led the way in the development of accounting and financial reporting guidance. It continually monitored the situation in terms of improvements in practices. It was ahead of the curve when it commissioned a report exploring the concept of sustainable development and a case study that demonstrated the practicality of implementing the concept at the enterprise level.

It showed how financial and environmental performance could be linked through various eco-efficiency indicators. It designed a methodology for selecting the appropriate indicators and for their measurement. It also provided a manual instructing preparers how to produce these indicators on a consistent basis. ISAR chose the most feasible options and, more important, gave concrete steps for their implementation. Lastly, it directly assisted national and regional accounting associations in educating government officials and practitioners on various aspects of environmental accounting and related environmental issues. This led to changes in disclosure requirements in some of these countries.

The initiatives undertaken by ISAR in the late 20th and early 21st century on this subject were just a start, and only the “tip of the iceberg.” There is still much to be accomplished. Environmental issues, particularly those relating to naturally-evolving and man-made global warming, are of great public concern. Some work is being undertaken on “accounting for greenhouse gas emissions and related credits,” by both international and national accounting standards-setters. If ISAR can accomplish as much on this subject in its next 25 sessions as it has done in its first 25 sessions, both industry and the public should be well served.

Appendix:
Chronology of sessions and meetings on environmental accounting

Session	Year	Topic
Seventh	1989	Global Developments – Environmental Information disclosure.
Eighth	1990	Global Issues – Accounting for Environmental Measures,
		Information Disclosure Relating to Environmental Measures (survey).
Ninth	1991	Accounting for Environmental Protection Measures.
Tenth	1992	Key Issues in International Accounting – Environmental accounting.
		Environmental Disclosures: International Survey of Corporate Reporting Practices.
Eleventh	1993	*[Not on the Agenda]*
Twelfth	1994	Key Issues in International Accounting – Environmental Accounting.
		Environmental Disclosures: International Survey of Corporate Reporting Practices.
Thirteenth	1995	Incentives and Disincentives for the Adoption of Sustainable Development by Transnational Corporations.
		The Integration of Environmental Performance Indicators with Financial Information by Transnational Corporations.
		Review of National Environmental Accounting Laws and Regulations.
		Disclosure by Transnational Corporations of Environmental Matters at the National Level.
		A Practical Approach to Integrated Environmental Accounting: AGIP Petroli Case Study.
		The European Community's Eco-Management and Audit Scheme.
		Sustainable Forestry Operation and Accountancy.
Fourteenth	1996	Current Developments in Environmental Accounting.
--------	1997	[*No Session]*
Fifteenth	1998	Position Paper: Accounting and Financial Reporting for Environmental Liabilities and Costs.
		Accounting and Reporting for Environmental Liabilities and Costs within the Existing Financial Reporting Framework.
		Linking Environmental and Financial Performance: A Survey of Best Practice Techniques.
Sixteenth	1999	*[Not on the Agenda]*
Seventeenth	2000	Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardizing Eco-Efficiency Indicators.

Other 1993 Expert Group Meeting on Accounting for Sustainable Development.

1995 Steering Group on Accounting and Reporting for Environmental Costs and Liabilities Position Paper.

1999 Steering Group on Eco-Efficiency Indicators.

Workshops 1998 Thailand, Brazil, Egypt.

Bahrain, Malaysia, India.

Brazil (2), Czech Republic, Argentina, Geneva.

Kenya.

Chapter IV
Accounting reform and retraining in transition economies

A. Introduction*

As accounting is the language of business, accounting reform became an integral part of the transition to a market economy. ISAR membership had always included experts from the centrally planned economies. During the years preceding the breakup of the former Soviet Union, the experts from centrally planned economies had used ISAR as an information forum. They had been exposed to the main issues in international accounting and followed the development of international standards as well as the European Union directives on accounting and auditing. ISAR had studied topics of interest to them and published its guidance on *Accounting for East-West Joint Ventures* (1992) and *Accounting, Valuation and Privatization* (1993).

The former Soviet Union had a well-developed bookkeeping system which satisfied the needs of government planners, statisticians and other officials. This system had two purposes: to record financial transactions and to assure the efficient use of resources. It did not, however, produce all the financial information typically needed by investors, creditors or even managers. In the words of one ISAR expert from the region, "The accounting system should no longer be used merely to verify production targets". His country evaluated very positively the ISAR's work on joint ventures since that contributed to economic restructuring. Furthermore, he said his country was ready to make greater use of agreed international standards.[1]

With the advent of *glasnost (political opening) and perestroika (economic restructuring),* elements of a market system were being introduced into the centrally planned economies. Thus, there were new demands on accounting. In order to meet these new demands, it was necessary to switch over to market-derived accounting practices.

The experts from the former Soviet Union and Eastern Europe turned to ISAR as a source of objective advice to institute the appropriate accounting reforms and to retrain over 3 million accountants/bookkeepers in the new rules. They first asked the UN Centre on Transnational Corporations (UNCTC) for assistance in developing accounting regulations for joint ventures. The pace of East-West business co-operation had been nothing short of phenomenal. The number of joint ventures had increased dramatically from the inception of the law on joint ventures (1987) from 23 to over 3000 in 1991. While the number of ventures had grown rapidly, the average amount of foreign capital per joint venture never exceeded USD 1 million. The western partners were unwilling to contribute more without reliable information and the Soviet partners wanted more useable information. The Soviet Government realized that a crucial step in its transition to a market economy was the development of an accounting system capable of

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* The chapter was authored by Lorraine Ruffing. She is grateful for comments from Zubaidur Rahman, and Ramon De Reyna.

[1] UNECOSOC (1990). Report of 16th Session of the Commission on Transnational Corporations, 2-11 April 1990, ECOSOC Official Records, 1990, Supp.6, p.20.

measuring financial performance at the enterprise level and providing the information that all investors needed. They also realized that the adaptation of international accounting standards according to these needs might be more useful than adopting the national standards of another country which would facilitate investment with partners from only that one country. In other words, the experts from the former Soviet Union saw that the use of international standards could more quickly integrate their countries into the global economy. They had gained these insights from their participation in ISAR.

Although the experts were keen to modernize their system, they faced three problems. First, while the accounting departments within the various Ministries of Finance of the former Soviet Union were keen to switch to market accounting so that they could more quickly integrate their economies into the global economy, the Ministries of Finance did not always follow the advice of the Accounting Departments but rather the dictates of the tax authorities. Second, there was also the problem that the international accounting standards, were written with the developed countries in mind. They were not formulated for countries where the level of development and accounting architecture differed from developed countries and thus the "fit" of international standards to countries in transition was less "comfortable".[2]

Third, accounting reform would be difficult without retraining some 3 million accountants, academics, and bookkeepers and re-organizing the profession. This required in integrated approach. It was clear that there could be no independent profession without accounting reform or re-education. And re-education depended on the efforts of the profession.

[2] Townsend, Geoffrey (2006). "Were they thinking about us when they wrote the standards?", Workshop on Fair Value Measurement Requirements in International Financial Reporting Standards, UNCTAD, Geneva, 9 October.

B. Accounting reform in the former Soviet Union

In 1989 the former Soviet Ministry of Finance requested assistance from the UNCTC to launch such an integrated programme of accounting reform, accounting education and strengthening of the profession. In response UNCTC together with the Soviet Chamber of Commerce organized the *Workshop on Accounting for and by East-West Joint Ventures in Centrally Planned Economies (June 1989)* in Moscow. It brought together over 150 experts from government, joint ventures, international accounting firms and academia for the *first* public discussion of accounting issues. The aim of the workshop was to identify problems arising from divergent accounting standards. There was a need to reach a common understanding of accounting practices in joint ventures. For this, it was necessary to first understand the differences between the soviet and western accounting systems. The Soviets were concerned that the different joint ventures would each use their different western systems making a comparison of the results impossible. The Workshop recommended the creation of an international Task Force to assist the former Soviet Ministry of Finance to revise accounting regulations for use by joint ventures. In view of the fact that bookkeepers, accountants, and professors would have to be retrained in any new rules, the workshop also recommended the development of the appropriate curricula.

As a result of the problems raised and solutions proposed at the workshop, the Ministry of Finance issued new instructions for accounting for depreciation, capital investments, revenue recognition, financial investments, exchange rate translations, leasing and bad debts even before the Task Force was organized. However, problems with the matching of revenues with expenses, the calculation of production costs, the recognition and valuation of assets and liabilities and the calculation of profits remained. The latter was a particular problem for joint ventures because a profit's tax was to be levied on them once the joint venture's tax holiday ran out.

When interviewed by the US press, the head of the Soviet Accounting Department at the Ministry of Finance said, "We do not intend to borrow the accounting system of an individual country. We believe that new accounting standards developed on the basis of internationally accepted accounting practices would be best for the future market economy of the USSR" (Panteleev, N. 21 September 1990) Given the willingness on the part of the Soviet authorities to consider solutions based on internationally accepted accounting standards, they invited the UNCTC to organize the international *Task Force on Improvements in Accounting (1990-1991).*The Task Force approach was particularly attractive for a number of reasons. First, the Soviet Government could quickly avail itself of the years of work done in various multilateral settings at a relatively low cost. Second, it could avoid favoring one national system over another. Third, it could receive advice that was both objective and sensitive to its particular needs.

The Task Force was composed of Soviet experts and ISAR experts from Canada, France, India and Mexico as well as technicians from the large accounting firms. The UN defrayed the hard currency costs of the Task Force and the Soviets paid the rouble costs. Their task was to revise the soviet accounting system in line with the needs of an open economy. But where were they to begin with this monumental task? The first step was to revise the soviet chart of accounts to comply, as far as possible, with international accounting standards. For example, some concepts such as intangible assets were entirely missing from the chart and were added. The chart of accounts was the main tool for financial record-keeping dealing with assets, liabilities, revenues and expenses and was used by all soviet enterprises. The chart of accounts was known in one form or another in Europe during the 1930's but was introduced in the Soviet Union during World War II. Some European countries still have a chart of accounts, such as France's *plan comptable.* As a result of the chart, soviet accounts were totally uniform (an economists' dream). The chart contained 72-96 so-called aggregated or combined accounts (first-level accounts) and sub-accounts or intermediary accounts (second-level accounts) which were used in bookkeeping depending on the amount of detail needed—i.e. the more complicated the company, the more accounts.[3]

Based on the chart of accounts, balance sheets and income statements could be drawn up but these would not be recognized as such by western accountants. The chart of accounts, balance sheet and income statement were accompanied by lengthy commentaries and many regulations which explained in detail how items were to be booked and reported. Nothing was left to the bookkeepers' or chief accountants' imaginations. While creative thinking might have been absent from the reporting system, there was the pressure to make it appear as if the planned targets were being met. Enterprise performance was important; enterprise profitability was not.

The Task Force was not allowed to engage in "shock therapy" but was directed to build a bridge between the old and new systems. It was the opinion of the former Soviet Ministry of Finance that the most efficient and rapid manner to transform the old system was to build on the old bookkeeping system. The chart of accounts put emphasis on the bookkeeping function and it was applicable for all types of enterprises. As most enterprise accountants were not familiar with the principles of international accounting, a dramatic change would have created serious problems for the three million bookkeepers and chief accountants.

In assessing this gradual approach, it is necessary to distinguish between *bookkeeping* which is the recording of transactions and *accounting* which is concerned with disclosure and measurement issues. It was perfectly possible to keep the existing uniform bookkeeping system in tact through the chart of accounts and make modifications in it so that it produced useful information for drawing up the financial statements. At the same time the Government could legislate a basic accounting law consistent with an international accounting framework. The law would change relatively seldom whereas the chart of accounts and detailed instructions could be changed as needed. There would also be a need for an institution to formulate or adapt international accounting standards which could not be accommodated in the basic legislation or in the instructions for the chart of accounts.

Immediately after the first Task Force meeting, a small drafting group was established to start the process of adapting the chart using international standards as a guide, as well as producing instructions to explain the new methods, a glossary, a preamble containing accounting concepts and supplemental financial statements. The new instructions were designed to eliminate the existing conceptual differences between soviet and international practices regarding accounting for assets, liabilities, revenues and expenses.

The revision brought the chart of accounts into compliance to some extent with international accounting standards; full compliance was not possible given the lack of structural change (in the banking sector) and economic conditions at the time. The modernization of the chart allowed trial balances to be calculated from which financial statements and other accounting reports could be produced. The plan was to apply the revised chart of accounts to joint ventures and later extend it to the rest of the economy including cooperatives and state enterprises. The Task Force concluded its work on 27-30 October 1991 when it approved the draft chart of accounts. It also recommended that the work of accounting reform be continued by an International Advisory Board. The revised chart of accounts was adopted by the Soviet Ministry of Finance Order No. 56, 1 November 1991. Shortly after this the Soviet Union

[3] Rahman, Zubaidur (1991). "The New Chart of Accounts and Accounting Requirements", Deloitte and Touche, Moscow.

collapsed. However, the Russian Ministry of Finance adopted the new chart for its use in December 1991 and all Commonwealth of Independent States (CIS) followed suit.

C. Organization of the profession and accounting retraining

The Task Force considered another issue which was linked to accounting reform and that was the organization of the accounting profession. Accounting reform was impossible to implement without the active support of the accountants and bookkeepers. The soviet accountant was neither part of the management team nor an “independent” auditor. His/her main duty was to supply information to central planners about the fulfillment of production targets. For the reforms to succeed, the soviet accountant would have to be able to apply the new rules and to use these results to evaluate the performance of the enterprise.

The Task Force spent time in explaining the role of accounting organizations in regulating their members. The first step had already been taken in December 1989 when the Association of Accountants was created. The first president was Prof. Anatoly Sheremet, Chairman of the Dept. of Accounting at Moscow State University. UNCTC and former DRT-Inaudit organized a seminar to acquaint Russian auditors or ‘controllers” with the audit process and to discuss issues surrounding the organization of the profession. Soviet auditors were very concerned about what would happen if they certified accounts and later they were proved to be incorrect. They were also puzzled about the nature of “independence” and what it meant not only in relation to their clients but also in relation to government authorities.

At the same time UNCTC together with western and soviet academics produced three curricula for retraining: practitioners in the public and private sectors, professors and upper level university students. A basic curriculum was developed by Prof. Adolf Enthoven, a leading educator and author in the field of international accounting, and tested and evaluated for over three years.

During 1990-1992 the UNCTC, six leading soviet educational institutions and six of the “Big Eight” accounting firms organized a training programme for over 1000 upper-level university students. The classes were initially taught, on a pro bono basis, by professional accountants and trainers from the largest international accounting firms. A related benefit to them from the programme was the ability of the firms to identify candidates for staff positions in the offices they were opening in the former Soviet Union. The classes were conducted in subsequent years by leading western academics.

- Courses were offered at
- Moscow Plekhanov Institute by Ernst & Young
- Moscow State University by Deloitte Touche
- Engels Soviet Trade Institute by Coopers & Lybrand
- Moscow Finance Institute by Price Waterhouse
- Moscow State Institute of International Relations by KPMG
- Kiev University by Arthur Andersen & Co.

The courses concentrated on financial and management accounting. The international instructors, who were assisted by soviet accounting professors, found the students well-prepared. New concepts and new terminologies were rapidly assimilated. In the words of those who evaluated the programme they found that the students

…familiarized themselves with international principles and grasped the differences between the soviet and western concepts; gained an insight into management accounting which was practically unknown to soviet accountants and obtained a good understanding of the nature of auditing.

This was no surprise to the soviet accounting authorities one of whom insisted that soviet students and practicing accountants were ready to take up the challenge of learning new accounting concepts. He said, "They are like those students who will learn Chinese overnight if necessary".

The courses needed textbooks which were international in scope. Almost a ton of new accounting texts was donated by Houghton Mifflin Company, Richard D. Irwin, Inc., Prentice Hall, Inc., John Wiley & Sons, Inc., and Addison-Wesley Publishing Company and shipped to Moscow by the UNCTC. The publishing house, Finance and Statistics, translated eight major accounting and auditing textbooks into Russian such as Belverd Needles, Principles of Accounting and Gerhard Mueller et al, Accounting, An International Perspective. The authors of the textbooks waived their copyrights to enable the retraining programme to advance rapidly and at low cost. A major stumbling block was the precise translation of accounting terms. The project produced an English-Russian dictionary of accounting terms to resolve this problem.

During 1991 the UNCTC, with the assistance of the Centre for International Accounting Development at the University of Texas and four participating soviet universities, selected 125 soviet accounting professors from all over the former Soviet Union to "train the trainers" courses in international accounting (1992-1996). Four centres of excellence were established in Moscow, St. Petersburg, Kiev and Tashkent funded by the United Kingdom Know How Fund. The professors who were trained formed a cadre of soviet trainers who could teach basic courses in financial and management accounting. Retraining the profession and overhauling the curricula in soviet institutions was a long- term job and not one for the limited resources of the UN. But the UNCTC training programme did give the former Soviet Union a quick start as well as having a sizable multiplier effect.

D. Continuation of accounting reform

The work of the former Task Force was continued by an expanded body called the International Advisory Board (IAB), 1992-1996 which was convened by the Russian Parliament and funded by the European Commission as UN funds had run out. The new Board included the European Commission, UNCTC, World Bank, Organization for Economic Cooperation and Development (OECD), IFAC and IASC as well as international experts from the western accounting firms and Russian experts from the Ministry of Finance. Its objective was to provide consistent advice to the Russian Federation on accounting reform and retraining. Its mandate included making recommendations on

- Further improvements in the chart of accounts and on such standards as are relevant
- Formats for balance sheets, profit and loss accounts, notes to the accounts, development of cash flow statements
- An accounting law (including general accounting principles)
- The current draft auditing law
- The future standard-setting process.

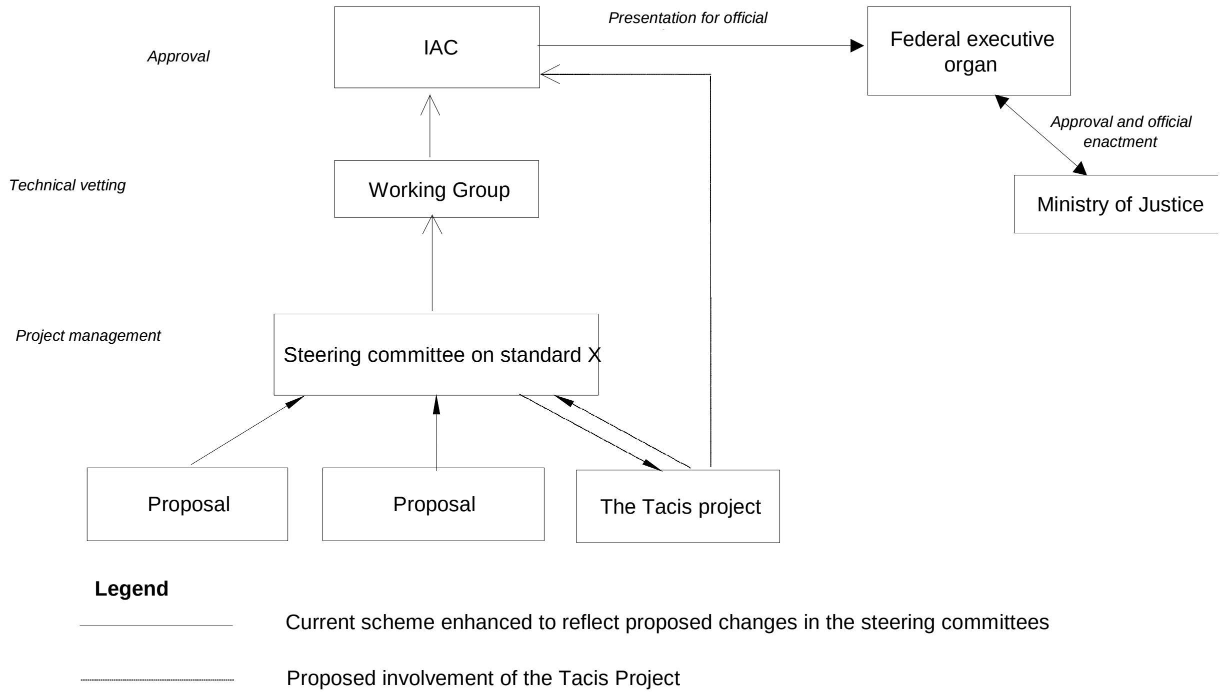
The IAB met six times. It drafted a model accounting law, an audit law and produced over 4000 pages of training materials in Russian using the UN training materials as a basis. The project was a good example of effective coordination by international organizations to meet local needs as it worked closely with the appropriate counterparts (Ministry of Finance and the Duma).

In November 1996 the Federal Law 129-FZ *On Accounting* was adopted. It provided the general framework for accounting and reporting for entities in Russia and established the legal basis for accounting regulation. It could be seen as the backbone of future accounting reforms as it provided the legal assurance of the users' rights to reliable financial information. By 2003 the Ministry of Finance, being the official standard-setter, published 19 new and/or revised accounting standards, ten methodological guidelines and a new chart of accounts. Though many of the fundamental concepts of international standards were introduced, many administrative provisions and reporting characteristics of the former Soviet system remained.

The constraints on accounting and audit reform were many. Already mentioned is the fact that tax considerations often slowed reform as the tax officials did not know the impact on tax revenues from changes in the accounting rules. Thus, there was a need to separate financial accounting from tax accounting. There was also the difficulty in distinguishing between general accounting principles or the conceptual framework and detailed accounting standards.[4] Some CIS accountants wanted to combine the principles which belonged in a conceptual framework with detailed standards which are the practical guidelines for presenting accounting information. Standard-setting was often fragmented among various agencies such as the Ministry of Finance, the tax authorities, the Commission on Securities, the Central Bank and the state insurance agency. These bodies engaged in turf battles and did not accept the fact that the basic accounting principles and basic set of standards should apply to all entities and that their efforts should be confined to formulating special accounting and reporting requirements needed by entities under their jurisdiction. Lastly, Russia and other former CIS countries were flooded with bilateral donor projects with some seeking to introduce their own national accounting standards rather than international standards. This caused a great deal of confusion among policy makers who also had to overcome the natural resistance of the preparers of financial statements to new rules.

The advisory work of the IAB was taken over by a European Union /TACIS Project (1999-2002) won by KPMG Cologne. Among other objectives the project was to develop and present a number of national standards for accounting and reporting for all large and all listed companies in accordance with international accounting standards. Shortly before the inception of the project, Russia adopted an accounting reform programme (March 1998). The aim of the programme was to bring the Russian accounting system in line with international accounting standards. The main player in the reform programme was the Inter-Agency Commission for Accounting and Financial Reporting Reform (IAC). It was created by the Russian Government to co-ordinate the various ministries and vested interests. The IAC included 15 members from all the relevant ministries and the Russian accounting profession. The Working Group of the IAC consisted of both Russian and international experts and was active in drafting standards. How the EU/TACIS project interacted with the IAC in the complex process of adopting national accounting standards is shown in the following diagramme.

[4] Krylova, Tatiana (1996). "CIS Accounting Reforms", OECD Accounting Information Network, No.1, Moscow, June.



Before the draft standards could be presented to the Ministry of Justice which was the final authority to approve and enact the proposed standards, they were submitted to the Ministry of Finance for completion under the general supervision of the IAC. Once this happened, the project had little opportunity to influence the standard-setting process.

The diagramme shows that the EU/TACIS project had no monopoly on the process of accounting reform and the drafting of standards. The project's involvement is shown by the dotted lines. The project experts provided inputs and comments on the proposals of the Working Group of the IAC. One of the early project outputs was the analysis of the existing Russian standards in terms of their compliance with international standards. The results were presented to the Ministry of Finance. Subsequent revisions of the Russian standards used many of the project's comments. The project drafted ten priority accounting standards and developed commentaries on these draft standards and also on three existing standards. Given that Russian accountants always expected a greater level of detail and at least an indication of how the bookings were to be made, the project developed ten sets of training materials.

UNCTAD continued to provide advice to the project in two areas. First, a Russian staff member knowledgeable in Russian and western accounting standards assisted in the drafting of the project's proposed standards. Two other staff fluent in Russian and familiar with the Russian economic environment assisted in the area of accounting by SMEs. SMEs in Russia faced a particularly difficult situation in that there was no nationally uniform definition of an SME and multiple agencies imposed accounting rules. As in the case of the larger firms, tax accounting took precedence over financial accounting because the primary objectives of the Russian laws on the subject were the assessment and collection of taxes. UNCTAD carried out a survey of accounting practices among SMEs. It found that the SMEs which had the status of juridical persons preferred to use the system for larger enterprises in the hope of providing potential investors with the information they expected. The non-juridical SMEs were using a simplified method of reporting for the purpose of taxation and were not using financial accounting not even double entry bookkeeping. Their most significant problem was the imputed income tax which was computed in an arbitrary manner by local authorities. High imputed income taxes were inhibiting commercial activity or driving it underground. UNCTAD provided a background paper summarizing the definitions and rules used in various countries. It also arranged the participation of the appropriate Russian authorities in its discussions on accounting by SMEs so that they could exchange information with other ISAR experts.

With respect to long-standing debates on whether international standards should be adopted in Russia or if Russia should just adapt its standards to international ones, the project took the approach that legal entities should report according to Russian laws and these should be brought as close as possible to international standards. On the other hand listed companies and banks should produce consolidated financial statements in full accordance with international standards.

Given the complexity of the Russian reform process, this gradualist approach was adopted. It was supported in a parliamentary hearing on international standards (2000). In 2003 the IAC approved its annual plan of action based on this approach. However, the IAC was dissolved in 2004. Nevertheless, the Ministry of Finance approved the *Concept for development of the accounting and reporting system in the Russian Federation in the medium-term* and it reiterated the gradualist approach for accounting reform. Thus, one of the main achievements of the EU/TACIS project was that it significantly contributed to resolving the confusion over the strategy for accounting reform.

The efforts by the UN and EU were affected by the lack of donor coordination mentioned earlier. The situation could be summarized as too many donors hiring too many consultants to advise too many beneficiaries. There was a limited target "market" for advice and it was overloaded. Furthermore, some of the bilateral donors had a tendency to "export" their national solutions and this was reinforced by the use of consultants who spent more time acclimatizing themselves to the Russian environment than in giving useful advice.[5]

E. Support to standard-setting

At the request of the CIS countries, the UNCTC (later UNCTAD) and OECD organized a coordinating council for the exchange of accounting information and retraining (1992-1998). Accounting standard- setters within the various ministries of finance had always been called together periodically to receive the new rules and instructions for implementation worked out in Moscow. The former Soviet Ministry of Finance had established a Methodological Council on Accounting which met periodically to receive the new regulations and instructions on how to implement them. No development work was done by the satellite ministries. Therefore, the heads of these departments were not disposed to innovate nor did they have the knowledge or skills that resided in Moscow.

With the breakup of the former Soviet Union and lack of direction from Moscow, there was a very real risk that accounting methodologies and regulations would begin to diverge across the CIS with all the same drawbacks as experienced by the rest of the world. The new coordinating council met six times. It established two sub-groups; one to elaborate a conceptual framework for accounting principles and the second to draft a model audit law and audit standards. By the time the council met for its 6th session, it was obvious that the participants were entirely capable of entering a meaningful discussion on the elements which should be included in a conceptual framework and other more complicated topics. Eventually, priorities changed at OECD and the council lost its support.

The result of the work of the International Advisory Board and the coordinating council was that a number of CIS countries passed new accounting and auditing laws.

[5] Townsend, Geoffrey (2000). KPMG Memo to World Bank" Seven points to implement IAS in Russia", World Bank, Moscow, February.

F. Accounting reform and retraining in Central Asia

1. Uzbekistan (1993-1995)

Uzbekistan adopted the new chart of accounts (revised Russian chart) in 1992. However, it was necessary to augment this by improving the accounting process which includes not only the recording of transactions but also their proper identification, measurement and reporting. Since Uzbekistan had the tradition of enshrining bookkeeping/accounting practices in law, it decided to draft new regulations and laws in order to transform the system to one more compatible with a market economy. It was recognized from the beginning that the implementation of these regulations would require a large and intensive training programme. A broad- based working group was organized to draft new legislation. It was organized by the Ministry of Finance and backstopped by the UN Development Programme (UNDP) project office and EU/TACIS short-term experts. The project was unique in that two multilateral donors-- UNDP and the EU-- joined forces to support accounting reform instead of setting up competing projects.

Members of the working group were from the Ministry of Finance, the State Tax Committee, the Association of Accountants, UNDP and TACIS project as well as prominent chief accountants from the main state enterprises. The Ministry of Finance and State Tax Committee provided basic guidance as to what reforms were needed and in what order. During its two years of existence the working group produced

- A draft accounting law including the formats for financial statements
- A new production cost regulation and commentary
- A revision of the 1992 chart of accounts and
- A draft audit law.

Of these outputs the most important was the new production cost regulation. It was clear to the Government that if accounting reform was to succeed it was necessary to separate financial accounting from tax accounting. If investors, creditors and employees were to have reliable information about an enterprise's performance, the financial statements should not change every time there was a change in the tax law. The separation of financial accounting from tax accounting would prevent the tax rules from driving or distorting the financial information needed for investment decisions. This separation was achieved through the production cost regulation (PCR).

The production cost regulation contains a detailed classification of items to be included in production costs or not to be included for the purpose of arriving at taxable income. The PCR shows the accountant how to produce the income statement. The main revisions to the PCR were

- Split of production costs into product and period costs
- Classification of non-deductible expenses
- Changes in valuation methods
- Tax policy separate from accounting policy

- Accounting concepts of prudence, gross profit, operating profit, profit attributable to shareholders and permanent and timing differences with respect to calculating taxable income.

The new PRC went into effect in January 1995 and was approved by all the necessary ministries. A commentary was also written to help implementation and retraining efforts. The chart of accounts was also modified so that it was consistent with the new PCR.

In order to ensure that the new PCR was implemented a training programme was organized on the principle of “training the trainers”. In May 1995 255 of Uzbekistan’s best accountants participated in a one week intensive course taught by six leading accounting experts. It was intended that they would go on to teach other accountants. However, the “trainers” did not have enough time to devote to this activity. Accordingly, a small team of mobile trainers was organized which repeated the course throughout the country. Training materials were developed including a 100 page commentary. These materials were also used by the Association of Accountants and Auditors to conduct their own training programme. Ministries have also undertaken training programmes. Altogether some 1000 were trained. Without the project producing these materials, this training would not have been possible. As a result of the project Uzbekistan was the first CIS country which switched over to a definition of profit based on market practices. Profit and loss statements could be produced which showed a realistic bottom line or net profit available to shareholders after all other claims were met. Financial accounting was separated from tax accounting.

The project succeeded despite certain minor difficulties because first, the project design was comprehensive and went beyond merely drafting legislation since it took steps to secure implementation. Second, there was also one project strategy rather than competing projects funded by different donors. Third, it had the active support of the Government. Fourth, the international experts implementing the project were prepared to be flexible in terms of meeting government needs.

2. Azerbaijan (1995-1997)

Unfortunately, a similar accounting reform project in Azerbaijan did not lead to such positive results. The original objective of the project was to design a new accounting and auditing system that met Azeri needs and complied with internationally accepted accounting principles and standards. The project was funded by UNDP and executed by UNCTAD (March- October 1996). The government counterpart was the Committee for State Property although the Ministry of Finance was in charge of setting accounting standards. The Committee for State Property was chosen because it needed a minimum set of accounting standards to properly address the valuation of enterprises during privatization. A steering committee with interested parties could not be formed due to intra-governmental conflicts and concerns about how accounting reform would affect the tax base. A new production cost regulation and its commentary were submitted to the Ministry of Finance as well as recommendations for revisions for the chart of accounts. New formats for the financial statements and comments on the draft accounting law were also submitted.

The project ran into major difficulties because of the widespread fear that accounting reform would affect the tax base; because of a lack of understanding of the methods to separate tax and financial accounting and because of the lack of realization that accounting reform was an integral part of financial reform. Another constraint was serious underfunding which caused the chief technical advisor to the project to limit his field work to four months in Azerbaijan. This time was insufficient to met the concerns of the main players and create an understanding of how these concerns could be resolved. When UNCTAD suggested that the project be transferred to the Ministry of Finance, UNDP suspended all activities.

UNCTAD's work in retraining professional accountants and auditors in international accounting and auditing standards in Azerbaijan had a happier result because it was properly funded, had a full time chief technical advisor and built on all the other training efforts that had been undertaken in the former Soviet Union. The counterpart was also the appropriate counterpart and was in charge of strengthening and regulating the profession. The project, *Strengthening the Audit Capacity of the Azeri Audit Chamber and Preparing Future Insolvency Practitioners (1997-99)* was funded by the EU/TACIS and jointly executed by UNCTAD and the German Wirtschaftspruferkammer. The objective of the project was to strengthen the Azeri Audit Chamber which was founded in 1996. At the start of the project, the Chamber had six employees and 25 certified professional auditors.

The specific objectives were to train 300 auditors and 20 of these in undertaking receivership/management/insolvency assignments. During the course of the project accounting, auditing and insolvency curricula and materials were to be developed but here the project was able to use already-developed materials in Russian from previous UN/EU initiatives. This allowed more resources to be directed to training. However, considerable funds still had to be spent translating materials from Russian to Azeri at the insistence of the Chamber of Auditors. Finally, the last objective was to strengthen the Chamber of Auditors so that it could regulate the profession and give advice to its members.

The training component of the project was so successful that more than 500 auditors were retrained and received certificates. Almost 600 had started the course and more than 1000 had applied to take the course. This left the Audit Chamber with a pool of knowledgeable auditors capable of undertaking audits which could meet the requirements of investors, creditors, international organizations and international accounting and auditing standards. The project was extended several times beyond its closing date due to contributions from bilateral donors who saw the merit of the project.

Chapter V
Strengthening the accounting profession

A. Events that fuelled the need for a guideline on qualifications for professional accountants and the model curriculum*

1. Globalization and liberalization

Globalization and the liberalization of capital markets have implications for accountants and auditors. The growth of international trade and finance, the growth of transnational corporations, the wide geographical distribution of investors, the revolution in information technology, the development of instant world communication through on-line services require that the accountant of today reach across boundaries and jurisdictions to service clients at home and abroad. Accountants have to be equipped to operate in these markets and to insure their efficient functioning through the provision of reliable information. Thus, globalization requires that accounting qualifications should be transportable over national frontiers. Yet in the 21st century accountants are shackled and unable to move easily across borders unless they belong to a large international accounting firm because of the costly and time-consuming mechanism of mutual recognition of professional qualifications.

2. Giving value to African diplomas

In the early 1990's ISAR realized that while there were international standards for preparing accounts and auditing them, there were no global standards for the service providers. The need for a "global qualification" or benchmark for a common level of competence worldwide had been first discussed at the International Conference on Accountancy Development in Africa held in Dakar, Senegal in 1991.The conference was preceded by a joint survey undertaken by the former UNCTC, the International Labor Organization and the World Bank to identify accounting needs in 37 African countries. The survey results indicated the complete inadequacy of the profession and the accounting environment. In 18 African countries there were fewer than 50 fully qualified accountants in each. Most of these were in the private sector leaving the public sector seriously understaffed. While almost all countries had a professional accounting body, very few offered a national qualifying examination. Thus, there was no adequate qualification procedure or standard for becoming a qualified accountant. This led to the lack of

* This chapter was written by Lorraine Ruffing. She is grateful for the useful comments received from Ramon De Reyna.

recognition of African qualifications and forced many to seek credentials from developed countries. Therefore, there was a need to give value to African diplomas.

To impart more value, the conference called upon the education committee of IFAC to take up a new role. The conference requested that the education committee act as a supervisory committee and review the curriculum of African universities and institutes to determine if they met its international education guidelines. If they did, then the education committee could certify that the institution complied with its guidelines.[52]

3. Closing the education gap

At its eleventh session (1993) ISAR considered the level and quality of accounting education and strength of the profession in every region. ISAR was particularly concerned that accountants and auditors were not being properly prepared to meet their global responsibilities. The surveys revealed that the education gap between regions was far more serious than had been recognized by the accounting profession. There was a consensus on the need to develop standards for a global qualification which could make the accounting profession equal around the world. While in many countries a high level of accountancy had been achieved, there was no common level worldwide. That lack posed problems for accountants from developing countries and transition economies in that they were not accorded equal status with accountants from developed countries. Since IFAC was devoted to the strengthening of the profession and since it had already issued broad minimum guidelines for accounting education, ISAR called upon IFAC to take up the challenge of resolving these problems.

In its resolution, ISAR recommended that IFAC

- Develop global qualification standards for accountants and auditors to be endorsed by the United Nations
- Develop a professional accreditation system based on the global qualification standards
- Develop a multilingual world dictionary of accountancy
- Report to ISAR at its 12th session in 1994.[53]

IFAC declined saying that it did not have the resources or mandate to undertake these tasks. The President of IFAC wrote,

IFAC is not, however in a position to provide the financial resources for an undertaking that ISAR is proposing… We prefer not to promote IFAC's role as an accreditation body. An accreditation role suggests the need for legal mandates which IFAC does not have…IFAC strongly believes that any type of accreditation among countries must begin to be negotiated on a bi-lateral basis.[54]

ISAR, anticipating a negative decision, drafted the resolution in such a manner so as to enable it to "look for other ways and means of accomplishing this task if IFAC for whatever reason, is not in a position to take it up." Thus, progress could be made to close the education

[52] "Summary proceedings of the International Conference on Accountancy Development in Africa", 14-17 October 1991, Dakar, Senegal.

[53] "Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eleventh session," E/C.10/1993/12, 26 March 1993.

[54] Letter from Peter Agars, President of IFAC to Ramon De Reyna, Acting Chief, Accounting and Information Branch, UNCTAD, 7 January 1994.

gap, strengthen the profession in developing countries and facilitate cross-border trade in accounting services on an equitable basis even if IFAC declined the challenge.

However, ISAR was not able to begin work on these important tasks immediately. An informal consultation was held in November 1994 on the feasibility of working out a global qualification and accreditation system, but the Commission on TNCs advised that any work should await the outcome of the World Trade Organization's Working Party on Professional Services (WPPS) which was being convened in 1995. Thus, ISAR lost valuable time.

4. The World Trade Organization's discipline on accountancy services

In 1995 the World Trade Organization formed the Working Party on Professional Services (WPPS) to establish rules or "disciplines" to ensure that measures relating to qualification requirements and procedures, technical standards and licensing requirements in professional services did not constitute unnecessary barriers to trade. The WTO singled out the accounting profession as one that should be given priority because it is large, mobile and in some countries highly regulated to protect the public. The WPPS set off at a very leisurely pace in July 1995 trying to develop an understanding for its workload and priorities. It was clear that most of the delegates had difficulties with this assignment and they got little help from their capitols.

The WPPS spent time familiarizing its members with the organization and regulation of the profession which was a difficult task given its diversity worldwide. They were given briefings by the OECD, the IFAC, the IASC and ISAR. By January 1996 they were still asking for further information on the regulatory regimes of developing countries. ISAR reported to the WTO on accounting regulations, qualification and licensing requirements, recognition of foreign qualifications, and use of international accounting and auditing standards in 31 developing countries. In only 40 percent of these countries could the accounting profession be considered mature. While some countries had well-defined requirements for receiving a professional qualification, their educational systems were deficient and/or there were no national examinations. Even when titles were granted, it was difficult to meet the practice requirements to get a license to become an auditor. In half the countries there was no mechanism for the recognition of foreign credentials. Thus, even if the WPPS produced its rules on recognition they would not be relevant for these countries.

In reviewing the information it became clear that ISAR should no longer delay in developing a global qualification for professional accountants. Such a benchmark could set goals for professional qualifications in developing countries; and a certification system could attest that their systems met those goals and were producing accountants who could meet world standards. This would do two things:

- Strengthen the profession in developing countries and give value to local degrees, titles, credentials and
- Ease the process of recognition of those credentials worldwide in that reference to a benchmark would make the process more rapid and less costly; this would help developing countries take advantage of any elimination in the barriers to trade in accountancy services.

After more than 10 sessions the WPPS agreed on *Disciplines on domestic regulation in the accountancy sector.*

The final disciplines contain provisions which focus solely on the *administration* of licensing and qualification procedures. In brief the procedures should be pre-established, publicly available and objective and not constitute a restraint on the supply of the service. The disciplines did not specify or set out in detail the exact requirements which are to be followed for obtaining a professional qualification. The resulting WTO disciplines were disappointingly weak because of the extreme diversity among its member countries in terms of how they qualified accountants. This diversity did not allow the formulation of a uniform rule on the subject.

The WTO discipline did not set out in any detail what licensing requirements or qualification requirements should be; they only stipulated that the requirements should not constitute an unnecessary barrier to trade. The discipline therefore did not specify what is required in order to become a professional accountant. Thus, the accountants in developing countries would continue to be marginalized by the mutual recognition systems of developed countries. Mutual recognition is a second- best solution and one that cannot cope with the speed at which the modern financial world changes—particularly when it takes years for even the EU countries to evaluate and recognize each other's credentials. This situation made the establishment of a global benchmark for both professional qualifications and accreditation more urgent than even in order to introduce some fairness into the system.

5. Recurrent financial crises

Another driver for the global benchmark was reoccurring financial crises. In the wake of these crises, various deficiencies in accounting and auditing came to light adding to the growing pressure to use international accounting standards more rigorously. The need for more transparent disclosure was pointed out by Arthur Levitt, former Chairman of the US Securities and Exchange Commission:

The significance of transparent, timely and reliable financial statements and its importance to investor protection has never been more apparent. The current financial situations in Asia and Russia are stark examples of this new reality. These markets are learning a painful lesson taught many times before: investors panic as a result of unexpected or unquantifiable bad news.

Again while international standards were being developed for accounting and reporting, there were no international standards for the preparers of the accounts or their auditors.

B. Development of the guideline for the qualification of professional accountants

While the need for the global qualification was first put forward in Dakar in 1991 and was fully discussed in ISAR's 1993 session, work on the concept was delayed until fall 1996 because ISAR felt that IFAC should take it up, or failing that, then the WTO. When it became clear that neither of these groups would do so. ISAR formed a consultative group to develop the global qualification, a global curriculum and an international qualification (cum certification) organization. The consultative group consisted of experts serving on a pro bono basis from the Arab Society of Certified Accountants, the Association of Chartered Certified Accountants, the Certified General Accountants Association of Canada, the European Commission, the Federation Internationale des Experts Comptables Francophones, the German Accounting Standards Committee, the Institute of Chartered Accountants of Scotland, the International Federation of Accountants , the Polish Accounting Standards Board, WTO-WPPS, academics, members of accounting firms and resource persons.[55]

[55] The members of the five consultative groups were Talal Abu-Ghazaleh (Chair), Arab Society of Certified Accountants; Dr. Herbert Biener, Accounting Standards Committee, Germany Prof. Alicia Jaruga, Accounting Standards Board, Poland; Luigi Poli, European Commission ; Dale Honeck, Claude Trolliet, WTO ; Michael Walsh, ACCA ;Mark Boudreau, Ron Bourque, Grant Christensen, Certified General Accountants Association of Canada; Aziz Dieye, the Federation Internationale des Experts Comptables Francophones,Mark Allison, Institute of Chartered Accountants of Scotland; Warren Allen ;John Gruner, Milou Kelley, International Federation of Accountants; Prof.

The consultative group's task was to design a benchmark or guideline for the qualification of professional accountants which would establish a point of reference for national qualifications and assist holders of those qualifications to function in a global economy. It was expected that the guideline would benefit the international community as a whole by facilitating the harmonization of the various national qualification requirements. Such harmonization could close the gaps in national education systems, cut the cost of mutual recognition agreements and thereby increase trans-border trade in accountancy services. The initiative was in keeping with those of other professional groups.

The International Forum of Actuaries Associations and the International Valuations Standards Committee were developing global guidelines for the education of their professionals and were considering accreditation systems to protect their professional titles and the general public.

Given the different positions in the consultative group, it took five sessions to hammer out the guideline.[56] During the first two meetings the group had to re-establish the raison d'etre for its work because some participants notably, IFAC, did not agree that the need for a global qualification existed. The chair stated the objective was "to progressively narrow the education gap between the developing and developed countries". A global qualification would establish a benchmark to which developing countries could aspire and which could be used by others to rate the level of competency attained by their professions. The representative from FIDEF noted that there was a need to harmonize the profession. With the pace of globalization there was a need to create a lingua franca for accountants. It was added that the global qualification and accreditation would provide for equal and transparent access to the profession worldwide. If developing countries were not accorded access on equitable terms, they might consider protectionist measures such as residency and citizenship requirements.

The IFAC representative wondered if the global qualification would be something of value and if it would even be used by developing countries. In the world at the moment there were a number of acceptable and well-known qualifications such as certified accountant, chartered accountant, expert comptable, wirtschaftsprufer etc. Developing countries could select one of these and use it as a model when setting up their professions. An academic noted that this was more of a political exercise than a completely technical one.

Why don't developing countries use Canadian accounting standards or education standards", he asked, because for political reasons they cannot. The current exercise can take the best of various qualification systems/curricula and produce a universal standard.

One could add that just copying another national qualification system still begged the question of verifying that the country had achieved an "acceptable" standard.

When the IFAC representative was asked why IFAC had developed educational "guidelines" vs. standards, he replied that IFAC believed that while technical matters such as accounting and auditing lent themselves to standards, education did not. It is a wide subject and lent itself to different views. Education guidelines were prescriptive but not as definite as a standard. Whereupon the FIDEF representative interjected that accounting standards often were not very precise and contained options. The IFAC representative thought that the major

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Nelson Carvalho (Chair), University of Sao Paulo; Anthony Dalessio, KPMG; Cecil Donovan, Deloitte & Touche; Prof. Prawit Ninsuvannakul, Uni. Of Chulalongkorn, Thailand; Prof. Jean-Claude Schied, Institute National des Techniques Economiques et Comptables, Prof. Alfred Stetler, Uni. of Lausanne; Prof. Peter Walton, Univ. of Geneva and Ravi Kathpalia, resource person ,India (Chair), Ramon J. de Reyna, resource person, United States.

[56] The consultative group met on 15-16 October 1996, 10-11 April 1997, 1-2 November 1997, 16-17 June 1998, 16-17 September 1998 and 16 February 1999.The record of their conversations is taken from the official minutes of the meetings unless otherwise noted.

professional bodies would not lend support to the concept of a global qualification and it would not radically change their own situation as regards qualification to the bodies concerned. That indeed was the opinion of the IFAC president when he asked, “Why is it necessary, as the existing leading national accounting bodies can provide the benchmark?” [57]The chair of the consultative group asked in return “Why does the profession need standards in literally everything except education, examination and qualification?” He categorically rejected the profession’s monopoly to set the rules arbitrarily under the existing bilateral approach.

The representative of FIDEF noted that the exercise was filling a gap which private organizations had not yet decided to fill. He hoped that IFAC would adopt a more global vision and deal with the qualifications of accountants from developing countries. The major aspect of the current exercise was to give developing countries at least a benchmark-- something which is visual. This exercise since it was filling a gap should not be feared by IFAC. Again the chair, Talal Abu Ghazaleh, Arab Society of Certified Accountants, explained the purpose of the exercise from the point of view of developing countries:

We have therefore taken our destiny in our own hands, with the conviction that we deserve nothing less than what is good for the developed world and, thus want to be judged against the same benchmark. Refusing to allow this means denying the developing world its legitimate right to equality, under uniform world norms, by subjecting it to the dictates of bilateral negotiations. This will inevitably perpetuate the monopoly of recognition for the “leading national bodies that can provide the benchmark”. [58]

In the light of the initial discussions, the group drafted its mission statement in order to clarify the purpose of the exercise and dispel popular misconceptions, i.e. that there would be a UN accounting credential. First, the objective was to give guidance or a benchmark concerning the content of a national system of formation for professional accountants which would enable them to function in a global economy. Second, the guideline was being developed for the international community as a whole in order to promote global harmonization of professional qualification requirements. Third, such harmonization could close the gaps in national systems of formation, cut the cost of mutual recognition agreements, ensure a level playing field and fourth, increase trans-border trade in accountancy services. As credentials or qualifications were usually given at the national level, the group rejected establishing a global credential as within its objectives.

The group reviewed trends in accounting education including recommendations of major bodies such as IFAC and the US Accounting Education Change Commission. Their recommendations described the skills necessary to be an accountant. The chair suggested that the group adopt IFAC’s International Education Guideline 9 as a basis or framework and fill it in by developing a ‘model” curriculum, a “model” examination process as well as guidelines on attaining a professional qualification/credential and certification. It was clear that in working on a model curriculum, the group wanted a detailed curriculum rather than a broad outline such as IFAC’s (see Chapter Six for the development of the model accounting curriculum). They wanted educators to be able to compare the model curriculum with the content of their national educational and training programmes in order to make revisions.

By the end of 1998 the group had completed its discussions on the main requirements or elements for a professional qualification including

- general knowledge and skills
- professional education (including a detailed curriculum)
- professional examinations

[57] Harding, Frank (1997). “Why we don’t need a global qualification,” *Accountancy International*, January , p. 57.
[58] Abu-Ghazaleh, Talal (1997).” Why we do need a global qualification,” *Accountancy International*, March , p. 65.

- practical experience
- continuing professional education and
- code of ethics.[59]

The guideline on professional qualifications and curriculum was presented to ISAR's 16th session (1999) by a panel of three members of the consultative group. ISAR adopted the guideline and curriculum thus bringing to a fruitful conclusion eight years of discussion and work. Some described the guideline as a comprehensive benchmark, a very important input towards trade and development, an important contribution towards mutual recognition and a complement to the work done by the WTO. Several experts stated that they had already utilized the draft guidelines. Experts who conduct assessment of qualifications as part of their regulatory responsibilities described the guideline as very important and said that they "can't do with less" than a global guideline.

One topic that ISAR had to resolve during the session was the definition of "professional accountant". It agreed that *a professional accountant is a person who is qualified to be or who is a member of a recognized professional body of accountants or of auditors, or who is recognized as such by a regulatory body*. ISAR realized that it did not have time to enter into a discussion of verification systems and so this was deferred to meetings that were hosted by the ACCA in London.

C. International qualification organization

ISAR realized that formulating a guideline was only the first step. For it to serve as a benchmark, a system of verification for evaluating national systems needed to be developed. If national systems could be assessed and certified it would

- Give value to national degrees, professional titles and certificates
- Indicate the deficiencies in the national system which should be remedied before certification
- Reduce the cost of negotiating mutual recognition agreements since national systems of formation would have already been assessed against a known and universally recognized benchmark. It would be analogous to an International Standards Organization certification in that a certification indicates what degree or level of quality has been attained.

The last full meeting of the consultative group was devoted to this topic. The question which had dominated the discussion for years was what organization would certify that a country had a national system of formation in place that was capable of producing professional accountants according to the benchmark. There are a number of certifying organizations in the world including the

- International Standards Organization
- International Laboratory Accreditation Cooperation
- International Atomic Energy Agency
- International Civil Aviation Organization

[59] UNCTAD (1999). *Guideline on National Requirements for the Qualification of Professional Accountants,* United Nations, New York and Geneva.

- International Maritime Organization
- World Metrological Organization.

These bodies set technical standards for manufacturing, laboratory testing, safe guards vs. nuclear proliferation, aircraft, vessels, and metrological data collection. In most cases the standards are voluntary but in some cases they are mandatory upon signing a memorandum of understanding or agency agreement. In only one case (IAEA) does the organization conduct its own inspections. In most cases national certifying bodies conduct the inspections and issue a certificate so that certification systems are a national responsibility. Leaving certification to national bodies has led to demands for “multiple” certifications and accreditation when cross-border trade is involved.[60]

The group considered a paper present by the Arab Society of Certified Accountants on an International Professional Accounting Qualification Organization (IQO). Its objective was to grant accreditation to national and regional *professional accountancy examination bodies* which meet the standards for education, examination, qualification and certification. Certification of professional accountants would remain a national responsibility. The IQO would accredit the national certification bodies.[61]

The group decided that it would be useful to write to IFAC and ask whether it had changed its position since 1994 and would it now be interested in becoming a certification body. The group felt that any certification body would have to have legitimacy. Some felt that a coalition of international organizations (e.g. IFAC, IASB, World Bank, UNCTAD) would have legitimacy. However, other experts were of the opinion that certification should be avoided and that all that was needed was an attestation that the national system of formation was in compliance with the UN guideline. There was opposition to creating another quasi-UN institution which would in some way challenge the existing system of bi-lateral mutual recognition. All future meetings on the IQO were conducted by the ACCA in London in order to diffuse the tense situation.

Over 20 national and regional professional associations interested in the creation of an international verification organization met in London in July 1999 to discuss ways and means for establishing a system for assessment or verification. The participants established a task force and requested it to study methods of assessing professional qualifications and identify best practices. Such an organization could attest that national professional organizations were complying with the international requirements for professional qualifications. However, there was insufficient support, if not outright opposition from the private sector, for a compliance mechanism. Subsequent US corporate scandals and failures would see the profession lose the confidence of investors and regulators. This resulted in the profession’s right to self-regulation being called into question and challenged by the US Congress. US Government oversight was expanded by the Sarbanes Oxley Act 2002 and the establishment of the Public Companies Accountability Oversight Board. The Board monitors the competence and quality of services rendered to the public by the US accounting profession.

V. Situation now

While many countries have used the guideline and curriculum, the basic situation as far as cross-border trade in accountancy services remains unchanged. The current system of mutual

[60] UNCTAD (1999). “Global Certification and Accreditation Systems”, in the *1999 Review: International Accounting and Reporting Issues*, United Nations, New York and Geneva.

[61] UNCTAD (1999). “ International Qualifications Organization: A Proposal by the Arab Society of Certified Public Accountants,” in *1999 Review: International Accounting and Reporting Issues, United Nations*, New York and Geneva.

recognition is slow and costly unless the accountant belongs to an international accounting firm. Accounting education and certification systems in developing countries remain weak. Although train the trainers programmes could help close the educational gap. Given the continued difficulties in implementing IFRS, it might be time for ISAR to return to this topic of strengthening the profession. There needs to be a global consensus on the requirements for becoming a professional accountant. Countries meeting those requirements need to be so certified. The systems of mutual recognition need to be aligned with the global benchmark for assessing qualifications. Failing that, action could be taken within the context of the WTO rules against countries which pose unnecessary barriers to trade in accountancy services but this is not an optimal solution since invoking the rules is costly and time consuming.

Chapter VI
The Development of a Global Curriculum

A. Revision of the original model curriculum*

This chapter focuses on the revision of the model accounting curriculum developed by UNCTAD in 1999. At its sixteenth session (1999) ISAR adopted a guideline on requirements for the qualification of professional accountants. The guideline consisted of two parts. The first part provided recommendations on professional qualification requirements. The second part contained a model curriculum for educating professional accountants.

The model curriculum MC was developed for the international community to upgrade global accounting education and promote global harmonization of professional qualification requirements. The MC described for the international community the technical subject areas an individual must master to become a professional accountant.

The development process of the MC started with a review of seven national curricula known for their high quality. It relied heavily on the curriculum of the Association of Chartered Certified Accountants and the Certified General Accountants of Canada. The major headings for the various modules of the MC were grouped under the classifications contained in the International Federation of Accountants' (IFAC) *Content of Professional Accounting Education Programs,* IES # 2 and *Information Technology for professional accountants,* IEG #11.

During the course of its work, the group examined and compared various national educational requirements and various curricula. Various approaches to accounting education were discussed namely the prescriptive vs. the competency-based approach. The group selected the prescriptive approach in that it specified the general and technical subjects professional accountants needed to study to acquire the knowledge and skills to function in a complex world. It is best thought of as an "input" approach. The competency-based approach, where competency is defined as the ability to perform activities within an occupation or function to the standards expected in employment and is an output approach. Once "outputs" or "outcomes" are defined then the education necessary to achieve these outcomes can be specified. ISAR chose the prescriptive approach rather than the competency –based approach because developing countries had asked for explicit guidance on curricula and the prescriptive approach was easier for them to implement than the competency-based approach.

In issuing the Guideline in 1999, ISAR stated the need for its updates at appropriate intervals. In 2001, after discussing a report prepared by UNCTAD on the need for revising the model curriculum, ISAR commissioned a revision of the MC for consideration by ISAR at its nineteenth session in 2002.

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* This chapter was written by Dr. Mohamed E. Moustafa. He is grateful for the comments of Lorraine Ruffing.

What prompted the revision of the MC was an increasing realization that one size does not fit all. Valid and wide variations and needs among developing nations make it impractical to rely on just one model curriculum. The original MC implied uniform levels of educational and professional infrastructures among developing nations. These uniform infrastructures do not exist. Each country and each academic institution has its own special needs, cultures, and constraints that must be addressed. Also, the original MC did not deal with or provide the opportunity to accommodate national legal and statutory requirements that legislate specific accounting treatments for certain items. Additionally, the MC adopted a narrow scope of accounting education by preparing individuals for entry-level positions in the accounting profession irrespective of their desires to specialize in areas such as management accounting, tax accounting, auditing, accounting information systems and accounting for not-for-profit organizations.

The variations in needs call for a core curriculum not “one” curriculum. It was imperative then to revise the MC to make it flexible enough to meet the needs of specific environments. It is feared that without such flexibility, some nations may either adopt the MC blindly without regard to their educational, legal, and economic environments or change the model curriculum expeditiously in ways that jeopardize its integrity and its objectives.

In May 2002, UNCTAD commissioned a lead expert to:

- review the second part of the Guideline, i.e., the model curriculum,
- identify contents to be updated, added, and/or removed, and
- submit detailed rationale for all suggested changes.

UNCTAD also formed a committee of prominent professional and academic experts in the accounting field to function as a steering committee for the project. At a one-day workshop held in Geneva on June 19, 2002, the lead expert presented the steering committee with a framework for the revision process. During the next 18 months several drafts of the revised MC were presented and discussed by the steering committee. Concurrently, preliminary drafts of the revised MC were presented at the ISAR 2002 and 2003 sessions. After incorporating comments from ISAR’s delegates, the final draft was adopted by at ISAR’s 21st session (2004).

In introducing the revised MC, the report cautioned that the new MC should be viewed with five caveats in mind. *First*, the MC is for the formal education of professional accountants in every country of the world. It noted that many education/training institutions are not capable or not yet ready to adopt/adapt the MC. Therefore, certain pre-conditions need to exist before an institution embarks on an implementation program.

Second, the model curriculum is intended to serve as a guide to the technical content of the education/training of professional accountants. This technical content is in addition to basic general knowledge, skills, and practical experience that professional accountants need to have to function effectively in an interdependent global economy. It is not sufficient for individuals aspiring to become professional accountants to possess only theoretical technical accounting knowledge. Accountants must be able to apply the technical knowledge in practical, real-life situations. General knowledge, skills, and practical experience can best be acquired through some or all of the following: a) a general education component that is integrated into a professional accounting education, b) a professional accounting education program with an internship component, c) a required period of practical experience after graduation, and/or d) a lifelong continuing professional education program requirement.

Third, there are basically two approaches to developing global accounting education, the input approach and the output approach. As mentioned earlier, ISAR originally chose the input approach when it designed the first curriculum. The input approach specifies detailed general and technical contents of accounting curriculum. The output approach is also known as the competency-based approach. Competency is defined as the ability to perform activities within an occupation or function to the standards expected in practice. The output approach calls for specifying the basic competencies a professional accountant needs and then works backwards to specify the education necessary to achieve those "outcomes". Even though the competency approach in professional accounting education is under experimentation in few countries, the approach is still in its early stages of development. The steering committee, therefore, chose the more traditional approach, the input approach. This choice was influenced by the need for explicit guidance and the ease of the implementation process.

Fourth, if desired, the input approach can be reconciled with the competency-based approach in the implementation process. To do so, an institution/country needs to:

- determine the desired qualitative features of its accounting professionals to function successfully in its specific environment;
- develop an institution-specific mission by considering prevailing academic and professional infrastructures and existing strengths and challenges,
- examine the contents of existing courses against the MC to decide how relevant existing courses are in serving local needs and constituencies,
- develop a matrix to integrate needed skills with technical and professional content of the MC
- incorporate appropriate assessment methodologies
- convert the MC modules into courses and/or training programs and decide on course identification and sequence,
- develop corresponding syllabuses and determine the time to be spent on each course, and finally
- assess outcomes.

Fifth, the revised MC is a living document. It should be reviewed and revised as needed to ensure compliance with IFAC's IES and to reflect new developments in professional, technological, and global economic and business issues.

B. Identifying Alternative Options in Revising and Selecting an Option 2002-2003

The revised curriculum is based on a framework developed by the lead expert and presented to the steering committee at a meeting held in Geneva in June 2002. The framework outlined three options for the committee's consideration.

Option # 1 leaves the MC as is with the exception of introducing minimum revision to update topics, eliminating overlaps within and among the modules, and adding any topics that may have been left out.

Option # 2 views the proper implementation of the MC as critical as the curriculum itself. Thus, in addition to what was proposed in option one, option two recommended a supplementary project to deal with the following implementation issues:

- Determine pre-conditions and prerequisites that have to exit in an academic institution before attempting to adopt/adapt the MC
- Propose guidelines for implementation plans including technical and financial assistance
- Recommend sequence in which the suggested topics are introduced into the curriculum
- Propose guidelines as to the weight of each topic
- Offer guidelines as to elective modules to address the need for specialized topics and the particular needs of local environments
- Develop guidelines as to what and how to teach contents
- Specify minimum content of general education requirements (GE)
- Suggest guidelines to integrate knowledge acquired through GE content with knowledge acquired through professional and technical topics
- Advise on a program to help assess progress and evaluate results.

Option # 3 revises the MC by adopting the "output approach" to curriculum design. The option suggested a systemic approach to curriculum development taking into consideration issues involved in the design, the implementation, and the assessment processes. The objective is to help adopting institutions/countries to:

- Determine desired qualitative features of their accounting graduates and build a curriculum to achieve these qualities
- Assess needs, develop institution-specific mission in light of its prevailing strengths and challenges and in line with its existing academic and professional infrastructures

- Determine the identity and orientation of the accounting program whether it is a freestanding program or a joint program with other fields such as information systems or finance
- Evaluate the need, extent, and timing of required technical and financial assistance
- Design the curriculum and decide on course identification and sequence
- Examine contents of existing courses against the MC to decide how relevant existing courses are in serving local needs and constituencies
- Prepare course contents, teaching approaches, and other prerequisites
- Assess outcomes.

The steering committee met and discussed the three options. For practical purposes, it was the consensus of the steering committee to proceed with option one until such time when ISAR decides on option 2 and 3. Based on this consensus, the MC was revised and a first draft was submitted to the steering committee and was then presented and discussed at ISAR's session (2002). In early December 2002, a second draft report of the revised curriculum was sent to the delegates requesting written feedback by 31 January 2003. Several comments were received resulting into a third draft that was presented to the steering committee at a workshop in March 2003. Further feedbacks were solicited and again valuable commentaries were received resulting into a fourth draft. A one-day workshop was held in June 2003 to discuss questions raised as well as to act on proposed recommendations. About 20 delegates attended the workshop and provided input on the fourth draft. Further feedbacks were solicited again from the delegates and detailed commentaries were received and integrated into a fifth and final draft of the revised MC.

Throughout the preparation of the five drafts and based on the many comments and feedbacks, the lead expert found it necessary to capitalize on this unique opportunity of revising the MC and expanded the scope of option one beyond the minimum revision originally planned. It was felt that developing nations need *not* to go through the evolutionary slow process developed nations had gone through in designing and implementing their curricula. Developing nations, through the assistance of international organizations such as IFAC and UNCTAD and with the help of donor entities could leap forward in many areas and benefit from the experience of the developed world in reforming accounting education. Therefore, in addition to the planned minimum revision under option one, the revision incorporated few features of option two.

C. Basic Features of the Revised MC under a Modified Option One

***Core (basic) vs. elective (advanced) curriculum*:** The revised MC is made up of 24 modules. Section 3 on "Accounting, Auditing, Taxation, and Other Accounting-Related Knowledge" is revised into 10 core (basic) modules, 6 elective (advanced) modules, and an elective internship program. The core modules are required of all academic programmes. In addition, institutions would require at least 3 additional modules from the 6 elective (advanced) modules. The selected elective modules would vary from one institution to another to meet local demand and to comply with legal reporting requirements particular to that environment. The selected elective modules would also vary from one student to another, thus allowing students to take the appropriate electives to suit their desire for specialization. Thus, the choice of elective modules should be consistent with 1) the mission and goals of the institution and the environment in which it operates and 2) the student need for specialization in the accounting field.

***Substantive issues over procedural complexity*:** The revised MC de-emphasizes procedural complexities of accounting and focuses attention on substantive issues by:

- *Deemphasizing and resisting traditional impulses to*: a) teach financial statements preparation, b) memorize detailed standards and rules, c) teach accounting in specialized industries, and d) cover all topics and all professional and governmental pronouncements.
- *Emphasizing* a) a broader accounting education to develop an ability to learn and unlearn, b) addressing relevant global and technology issues, and c) developing skills in analyzing, planning, interpreting, and decision-making.

- ***Strong ethical, societal, environmental and professional content***: The revised MC emphasizes corporate governance, ethics, and professional values by incorporating features to:
- Improve the negative perception that stigmatized the accounting profession worldwide through incorporating strong ethical and professional content.
- Educate students to probe prevailing circumstances and set forth their independent views regarding the issues in question rather than trying to fit the circumstances within the accounting standards.
- Teach students how to effectively deal with polarized and conflicting interests of a multitude of stakeholders such as management, shareholders, government, society, etc.

Broader scope of accounting education: The revised MC prepares students for life-long learning in a wide range of professional career choices so they can begin, develop, and change their career paths in:

- Public accounting as practiced in large, medium, and small firms
- Corporate accounting such as financial management, controllership, treasury, financial analysis, planning and budgeting, cost accounting, internal auditing, systems, and tax.
- Government accounting and accounting for not-for-profit organizations.

D. Rationale for and Summary of Incorporated Revisions under the Modified Option One

1. Organizational and Business Knowledge

The objective of the revisions incorporated in section one on the "Organizational and Business Knowledge" portion of the curriculum is to ensure that students understand:

- What these disciplines are about, what effect they have on the study and practice of accounting and what the specialists in these fields do.
- Points of interaction between the accountant and the specialists in these areas i.e., to understand where they need the help of the accountant and conversely where they can help the accountant.
- The importance and nature of the financial markets.

In addition, specific changes were incorporated in each of the modules in this section to relate the perspectives of these fields to those in the accounting fields through the use of simulations, case studies, lectures, reading, and oral and written presentations.

Based on feedbacks received throughout the revision process, it was the consensus of the Steering Committee to reconfigure the original five core subjects for Organizational and Business Knowledge into the following 6 modules. The rationale for doing so is to be in accordance with IFAC's IEG 9 guidelines.

1.1 Economics
1.2 Quantitative Methods and Statistics for Business
1.3 Organizational behavior
1.4 Operation management
1.5 Marketing
1.6 International business

2. Information Technology (IT)

The IT revision was based on one basic assumption that accounting students need to know two things: 1) what IT is all about, i.e., that is, what the IT people do, and 2) what the points of interaction are between the accountant and the IT functional areas i.e., where the IT specialists need the help of the accountants and conversely where they can help the accountants.

The revised IT module starts with basic survey materials to enable accounting students to have a consumer's understanding of IT. In addition, specific changes were incorporated to reduce overlap and streamline the coverage. Also, IT applications were integrated into the general business and accounting modules. Thus, under the revised MC, IT applications become pervasive throughout the curriculum. Using this approach, students become conscious of, and skilled in, the highly computerized business environment in which they will work professionally. An academic institution that adopts this approach would command a distinctive niche in the way it delivers its curriculum for the 21st century. A new core module on accounting information systems (AIS) was also added as a core requirement in the accounting modules.

3. Accounting, Auditing, Taxation, and Accounting-Related Knowledge

To better reflect the nature and the content of the modules, the steering committee, based on feedbacks from reviewers, changed the title of this section of the MC from “Accounting and Accounting-Related Knowledge” to “Accounting, Auditing, Taxation and Related-Knowledge”. In addition to new coverage described below, specific changes were incorporated in each of the modules in this section.

Coverage of societal, ethical, and environmental issues:

Accounting is concerned with identifying, measuring, and communicating data revealing socio-economic activities of an entity. The objective of accounting is to facilitate decision making by all interested parties in allocating the entity’s scarce economic resources and ensuring its compliance with social, ethical, and business responsibilities. Effective and efficient allocation of scarce economic resources depends, to a great extent, on the quantity and quality of accounting information. The dramatic increases in the complexity of global business, the adverse environmental impact of economic activities on world resources and the quality of life, and the need for enhanced public scrutiny due to recent business frauds and world financial crises are the combined forces that put accounting practice and education at the crossroads of change. As a provider of financial and economic information, accounting has a vital role in overcoming these apparent deficiencies. Comprehensive curriculum change, both in scope and in pedagogy, is required in developed as well developing nations to address these environmental and societal concerns.

The objectives of this new coverage is to enable students to acquire the necessary knowledge to be able to explain and form opinions in relation to a) the interconnections between the accounting profession and the social, environmental, and economic settings of the entity it serves, b) the ethical issues, c) the societal and environmental audits and reports, d) the criteria by which environmental and societal reporting could be evaluated, e) the impact of environmental issues on conventional financial statements and financial audits, and the practice of accounting, and f) the use of accounting techniques to account for and report on environmental impact.

New core module on accounting information systems (AIS):

Accounting students need to acquire knowledge and understanding of accounting as an information system to see how all the parts of the system work and fit together. To-days business environment require accounting students to develop an up-to-date real-time systems perspective on accounting information processing and decision-making. They need to acquire knowledge about basic business processes and information technology with emphasis on generating cost effective and real-time accounting reports for a wide range of business decisions.

The objective of this new AIS core module is to help accounting students develop an up-to-date perspective of efficient real-time accounting information systems and develop an awareness and understanding of a) organizations and their activities, processes, and information needs of its stakeholders, b) principles of business system design, c) processes and disciplines associated with the design and control of AIS, d) information risk assessment and control procedures, e) required resources to build a real time AIS, f) preparation and presentation of information in a timely and effective manner, and g) various accounting and business processes in an information systems context.

New core module on knowledge integration - a capstone:

Each accounting module focuses on acquiring discrete accounting knowledge almost in isolation of knowledge acquired in other modules. There is a need to expose accounting students to the multi-faceted nature of accounting and the interconnections that exist among the various areas of accounting as well as between accounting and other disciplines. In other words, there is a need to focus on the role of accounting as practiced in the real world. A capstone core module is added to help students integrate knowledge, concepts, and skills through analyzing and solving complex accounting situations. The module is a strategy/policy module tailored to the needs of accounting students.

The objectives of the capstone module are: a) foster student understanding of the role of accounting in organizations and societies, b) develop critical understanding of how the application of accounting techniques is affected by organizational context, market developments, and a host of other social, technological, legal, ethical, environmental, and political issues, c) identify accounting techniques useful in problem formulation and problem solution, e) present findings and ideas effectively using oral and written communication skills, and f) develop social skills by working together in a team environment.

New elective module on accounting internship*:*

An internship program is added to the MC as an elective. The revised MC highly encourages student participation in formalized internship programs for few weeks during their last two years of studies. These internship opportunities should be made available by professional bodies, accounting firms, industry, government, and other off-campus organizations. The academic institution should specify the requirements for successful completion of the internship. The primary objective of the student intern project is to enhance the educational value of the internship experience. It is also recommended that the academic institution should issue guidelines to employers as to the type of work expected of the interns during the internship and the extent of compensation, if any.

The 24 modules in the revised MC are configured as follows:

Section One: Organizational and business knowledge:

1.1Module on economics.
1.2Module on quantitative methods and statistics for business.
1.3 Module on organizational behaviorModule on operation management.
1.5 Module on marketing.
1.6 Module on international business.

Section two: Information technology:

2.1Module on information technology (IT)

Section Three: Accounting, Auditing, Taxation and Related Knowledge – Core (basic)

3.1 Module on basic accounting
3.2 Module on intermediate financial accounting practices

3.3 Module on advanced financial reporting
3.4 Module on management accounting
3.5 Module on taxation
3.6 Module on accounting information systems (AIS)
3.7 Module on business and commercial law
3.8 Module on auditing fundamentals
3.9 Module on business finance and financial management
3.10Module on knowledge integration – a capstone

- **Elective (Advanced) Accounting, Auditing, Taxation and Accounting Related Knowledge**
  4.1Module on advanced financial reporting and financial reporting in specialized industries
  4.2Module on advanced management accounting
  4.3 Module on advanced taxation
  4.4 Module on advanced business and commercial law
  4.5 Module on advanced auditing
  4.6 Module on advanced business finance
  4.7.Accounting internship

E. Experience in Implementing the Revised MC - the Ukraine CIPA Project 2005-2007

In 2005, UNCTAD appointed a committee to review the detailed *Examination Content Outlines* of a CIPA certification program in Ukraine. The objective of the review was to determine whether or not the topics included in these outlines meet or exceed the *revised* MC as specified in Section Three of the MC. The objective of the CIPA program is teach to the CIPA exam by reviewing current accounting practices applying the IFRS. Thus, the CIPA examination program is not an accounting curriculum. Should some of the CIPA program participants have not gone through a formal accounting education program, their accounting education would be incomplete.

The committee examined contents of eight exam outlines:

- Financial Accounting 1,
- Management Accounting 1,
- Tax & Law,
- Financial Accounting 2,
- Management Accounting 2,
- Finance,
- Audit and
- Management Information Systems.

The review was limited to the adapted text of the lessons to the exclusion of problems, readings, and any other auxiliary materials. In June 2007, the committee submitted a report with a detailed assessment of each module and identified needed changes to improve compliance with

Section 3 of ISAR's revised model curriculum. The committee reiterated its position that the CIPA program is not a substitute for accounting education. As stipulated in the revised MC, accounting education needs to be based, among other requirements, on a foundation of organization and business knowledge as described in section one of the revised MC as well as on section two i.e., the module on information technology.

F. Lessons Learned from the Implementation Experiences of the MC:

Curriculum content is one link in the curriculum development chain: As revealed from the implementation attempts since the adoption of the original MC in 1999, curriculum design, as important as it is, is not the critical factor, curriculum implementation is. Curriculum content is but one link in the chain of curriculum development processes. To facilitate acceptance and proper adaptation and implementation, the MC needs to incorporate three stages of curriculum development.

- Design stage, i.e., what the minimum core curriculum (basic) that has to be offered.
- Implementation stage, i.e., how to do it.
- Assessment stage, i.e., how it was done. In this regard, the IFAC 's International Education Standards (IES), can be used as benchmarks to assess and evaluate national programs with regard to qualification requirements, professional education, practical experience and general education.

Slow and extensive process: Implementing the MC proved to be a slow and extensive process. It is a systemic, eclectic, and participatory approach rooted in the collaboration of global financial reporting and global economic development constituents. It is an ongoing multi-stage process and is part of a larger set of conditions and environment that promote changes. It requires considerable financial and technical assistance and intensive involvement of international organizations to enable academic institutions, with the desire and the capacity to change, to develop reform teams to manage the change process.

Curriculum design is but one component of the accounting education system – Preconditions for implementation: The strength and weakness in academic and professional infrastructures affect successful implementation of the MC and require the existence of certain preconditions and pre-qualifications prior to adoption. These preconditions and pre-qualifications deal with some critical components of the accounting education system.

- Stage of development of the educational system and the professional structure.
- Quality and quantity of faculty.
- Student preparation and attributes.
- Available financial, physical, and technical resources.
- Dominant educational environment and collaboration with the accounting profession.

Coaching the implementation process**:** Extensive coaching prior to and throughout the implementation process is crucially needed, in varying degrees, for successful implementation of the MC. Some accounting educators in developing nations and in transitional economies may still have a mindset associated with the conventional role of accounting in non-market based economies. They may not fully understand the mechanism of the market system and the role of accounting in market-based economies. They may lack awareness of current developments in accounting education and they may lack the time, expertise, or the supporting environment necessary to plan and implement accounting education reform programs.

G. A Forward Look

Given the above observations, one must conclude that many academic institutions in developing countries are not in a position to adopt the MC without technical assistance by donors and international organizations. Thus, the ability to translate the MC into action depends, in large part, on the ability to foster change on many front:

- communicate and disseminate the MC,
- recognize that each nation needs to determine the pace and scope of implementation in a way that best suits its goals, abilities, and resources,
- help accounting educators worldwide to better understand their roles in the new environment,
- enable academic institutions, with the desire and the capacity to change, build reform teams and manage change,
- help provide technical, and financial support,
- assist accounting educators acquire new skills and knowledge to fulfill those roles.

During the presentation of the revised curriculum at ISAR's 20th session (2004), one delegate recommended the establishment of an ISAR standing committee on accounting education to implement the revised MC. The idea has much merit and UNCTAD should consider putting it into effect. The objective of the committee is not only to help implement the revised MC but rather to push forward ISAR educational agenda. ISAR educational agenda may include:

Educational policy recommendations: Propose and discuss educational issues, assess progress in curriculum matters and professional qualification requirements, and co-ordinate activities with other international professional and donors organizations.

Assess the status of adoption of the MC: Take an inventory of what transpired in the past decade since the approval of the original MC in 1999. Solicit feedback on the experiences of countries adopted the MC, countries wanted to adopt the MC but could not, and countries decided not to implement the MC.

Pilot project: It is obvious that the implementation of the revised MC cannot be tackled on a massive scale. There is a need for an implementation strategy. The proposed ISAR committee on accounting education can launch pilot projects by carefully selecting academic program(s) with the desire and ability to change. Concentrating implementation effort on selected quality institutions would create local or regional "Centers of Excellence" as was done in the accounting reform projects (see Chapter Four), develop a critical mass of change agents, and produce success stories. In this respect, ISAR with the help of international organizations and donor entities can be a facilitator, a conduit for technical assistance, an advisor, and as an objective evaluator and assessor of the revised MC.

Chapter VII
Corporate Governance Disclosure

A. Why ISAR took up corporate governance disclosure*

At UNCTAD's 10th quadrennial conference in 2000, member States requested ISAR to promote improved corporate governance. UNCTAD X focused largely on the benefits and costs of globalization. In particular, member States were concerned with the growing power of transnational corporations many of which were now larger than many medium-sized member States. An analysis of corporate governance or "the system by which companies are directed and controlled" required ISAR to examine the issues of control and its results.[62]

The purpose of this chapter is to describe how ISAR developed its guidance on corporate governance disclosure. ISAR had looked at the role of accounting and auditing in the East Asian financial crisis (1997) during its 16th session in 1999. ISAR's main conclusion was that the lack of reliable information on external financial exposures did not permit corrective action to be taken in time. However, that crisis also sparked an interest in corporate governance as it became apparent that a key contributor to the problem was the governance structure of many firms which had closed family-dominated ownership structures. The absence of checks and balances, opaque control and ownership structures, weak minority shareholders and in some cases indirect government influence made for an explosive mix. Companies did not benefit from rigorous questioning regarding the wisdom of investment decisions and growth strategies. The results were over-investment, low profitability and high levels of risk.

The ISAR commissioned study found that weak accounting and audit practices were partly to blame.[63]These exacerbated the fundamental governance problems by not making the weaknesses more apparent and not giving a more timely warning of the high level of risk that many enterprises were taking on. One could hypothesize that better accounting and audit could have encouraged a more rigorous examination of investment decisions and a reassessment of flawed company policies. The Asian crisis also brought a series of challenges to the audit profession. It raised the issue of the gap between public expectations of the audit process and the assurances provided by the profession. Some of the large accounting firms were criticized for putting their signatures to accounts prepared according to weak national standards and for

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* This chapter was authored by Lorraine Ruffing and Andre Baladi. They are grateful for the comments from Paul Lee.

[62] Cadbury Commission (1992). Report of the Committee on the Financial Aspects of Corporate Governance, United Kingdom.

[63] Rahman, Zubaidur (1999). "The Role of Accounting Disclosure in the East Asian Financial Crisis", *1999 Review of International Accounting and Reporting Issues*, UNCTAD, Geneva.

bestowing a level of credibility on the company accounts through the use of their international brand names.[64]

Putting corporate governance on ISAR's agenda proved timely indeed because the business world was hit soon after by a series of corporate scandals in 2001-2002 in the United States (Enron, WorldCom, Tyco) and in Europe (Ahold, Parmalat, Royal Dutch Shell) that caused a severe lack of investor confidence. For example, the Dow Jones Average dropped from a high of 10,632 on 19 March 2002 to a low of 7,702 on 23 July wiping out an estimated USD 8 trillion in market value. Investor confidence was ebbing in the ability of corporations to act with integrity and according to the Conference Board (2003), 73 percent of the respondents of a Gallup poll said the CEOs of large corporations could not be trusted. [65]In a McKinsey survey on corporate governance over 70 percent of the responding investors in every region said they would pay a premium for a well-governed company.[66]

It was clear that in some cases the board of director and the audit committee failed to exercise sufficient control over the CEOs/CFOs. Thus, they failed in their principal duty. The use of questionable accounting and disclosure practices, their approval by the board and their verification by the auditors arose from a variety of forces such as

- pressure to meet quarterly earnings projections,
- the need to maintain stock prices,
- executive compensation practices,
- complex corporate financial arrangements designed to minimize taxes and hide the true state the companies and
- the compromised independence of public accounting firms.[67]

B. Background to corporate governance

Deficient corporate governance often arises out of the divorce in modern corporations between the ownership of various property rights by shareholders and other suppliers of capital on the one hand and the operational control which is in the hands of professional managers or agents on the other hand. This gives rise to what is called the "principal-agent" problem. Put simply, will the managers run the corporation for the benefit of the shareholders or for their own benefit? They have the incentive to mask their own poor performance and weaknesses, leading to less accurate reporting which does not highlight problems. And they have incentives to protect themselves and the company from accountability, either directly or through the mechanism of takeover. Thus, they favour such things as non-voting shares and poison pills which entrench management and are unfavourable to shareholders. In the same way, they can favour empire building through

[64] Frederick, Richard (2000). "Global trends impacting on corporate governance and accounting and some of the resulting challenges for the future", *2000 Review of International Accounting and Reporting Issues,* UNCTAD, Geneva

[65] The Conference Board (2003). *The Conference Board Commission on Public Trust and Private Enterprise: Findings and Recommendations.* 9 January.

[66] McKinsey Report (2002). *Global Investor Opinion Survey on Corporate Governance: Key Findings*, London.

[67] Frederick, Richard (2003). *Case study on corporate governance disclosures in the United States of America,* UNCTAD, Geneva: TD/B/Com.2/ISAR/19/Add.5, 31 July 2003.

acquisitions as a way of boosting their pay, making their company harder to take over and sometimes as a way to mask underperformance in the existing business.[68]

Recent experience has shown that when managers acquire ever-increasing ownership rights through stock options, they become more interested in driving up share prices by aggressive earnings management than in promoting the real profitability and the longevity of the company. The appearance of over 200 corporate governance codes and guidelines was an attempt to resolve this conflict of objectives. Corporate governance is about relationships and structures. First, it is the relationship between a company's management, its board, its auditor, its shareholders and other stakeholders. Corporate governance is based on structures through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.[69]

Other broader definitions would extend the concept of control beyond that exercised by the managers, the board of directors (BoD) and the shareholders to a larger number of stakeholders including creditors, employees, business partners such as suppliers and the local community. All of these stakeholders have an interest in how the company is managed. A more inclusive definition of corporate governance might be:

Corporate governance is a system that puts into place those structures and practices that ensure the company is managed, directed and controlled so that it enhances long-term shareholder value and sustainable development by balancing the rights of all stakeholders.

This definition of corporate governance is consistent with ISAR's conceptual framework for reporting which includes the idea of corporate stewardship—in that management is accountable for the resources entrusted to it. Corporate governance usually covers the following issues:

- Roles of the CEO and chairperson
- Board of directors: duties, composition, qualifications & training, remuneration
- Audit committee: selection and duties
- Shareholders and stakeholders: rights and treatment
- External auditors: selection and duties
- Disclosure and transparency.

At the time ISAR took up this topic the only internationally recognized guidelines for corporate governance were the OECD Guidelines for Multinational Enterprises (1976, revised 2000) and the OECD Principles of Corporate Governance (1999, revised 2004), as well as the International Corporate Governance Network (ICGN) Principles of Corporate Governance (2000, revised 2005). According to the OECD Secretariat the Principles were a direct response to the instability in the financial markets in Asia and Russia. With globalization and liberalization enterprises have access to both domestic and international capital markets. The suppliers of capital are interested not merely in the company's financial performance but also in its reputation and its governance. When investors withdrew from the emerging capital markets during the East Asian financial crisis in 1997, international organizations such as the World Bank and OECD put corporate governance at the top of their agendas as a way of ensuring financial stability. The revised OECD principles cover:

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[68] Paul Lee (2008). Comments on Chapter Seven: Corporate Governance Disclosure.

[69] OECD (2004). *Principles of Corporate Governance,* Organization for Economic Co-operation and Development, Paris.

- The basis for an effective corporate governance framework
- Shareholders' rights and their equitable treatment
- Role of stakeholders in corporate governance
- Responsibilities of the board and
- Disclosure and transparency.

The Principles focus on publicly- traded companies even though non-traded companies can have a significant impact on the public interest. Although the earlier version of the Principles (1999) addressed the question of internal structures and mechanisms for achieving fairness, transparency and responsibility, the revised version acknowledged that the Principles are difficult to implement where the legal and regulatory institutions are weak and under-resourced. The revised Principles, therefore, include a section on "Ensuring the Basis for an Effective Corporate Governance Framework". The concept of "stakeholders" is restricted to those who provide resources to the company such as investors, creditors, employees and suppliers. Other stakeholders who provide markets (consumers) and public goods and services (local communities) are not included. However, when discussing the responsibility of the board, OECD says it is "expected to take due regard of, and deal fairly with other stakeholders including local communities."

Within the investment community, many networks were established to promote good corporate governance such as the European Corporate Governance Institute, the Global Corporate Governance Forum and the International Corporate Governance Network (ICGN). The ICGN is a multi-stakeholder coalition which was founded in 1995. Its members are asset managers, pension fund trustees, insurers, shareholder associations, investment clubs, governance experts, shareholder advocates, attorneys, auditors, proxy firms, corporate executives, stock exchange officials, and security market regulatory officials. ICGN members are estimated to hold assets exceeding USD 15 trillion in 2008. ICGN seeks to develop a global consensus on capital market corporate governance and lay down the best practices for both issuers and investors. It adopted an international corporate governance code in 2000 and updated it in 2005.[70]

C. ISAR's work on corporate governance: focus on disclosure

Obviously the first thing that ISAR had to decide was how it was going to fulfil the member States' request "to improve corporate governance". ISAR was aware of the sensitivity of this work as the former UNCTC had been abolished largely because of its work on a code of conduct for TNCs. The 7th session (2000) asked for a review of corporate governance practices. UNCTAD in conjunction with the University of Geneva quickly organized a Roundtable on Corporate Governance to follow the 17th session so that experts on corporate governance and ISAR experts could discuss various issues at length such as

- Corporate governance and investor confidence
- Corporate governance practices in five countries
- Recent developments in corporate governance
- Frameworks for corporate governance: OECD Principles.

[70] Andre Baladi, "Quo Vadis Corporate Governance ? ", Speech at the ISAR 24th Session, October 31, 2007.

In concluding the 18th session (2001), ISAR proposed that it start its work by identifying best practices in corporate governance. Through informal consultations conducted in another workshop and via e-mail it was agreed that the work be focused on disclosure requirements on corporate governance with a view to developing guidelines. It had become evident that compliance with the OECD Principles and many company codes of conduct was weak. Among the possible mechanisms to improve compliance was better disclosure of the process of corporate governance. A well-conceived disclosure regime can be an effective oversight tool available to creditors, employees and shareholders. The McKinsey Global Opinion Survey identified ten factors that impact on investment decisions. 71 percent of the respondents identified accounting disclosure as the most important factor in influencing their decisions. The investors surveyed believed that good financial accounting can be an important corporate governance tool.[71]

Corporate transparency can strengthen corporate governance in that disclosure usually improves behavior or performance. ISAR had seen in its earlier work on environmental accounting that where TNCs were required by law to report compliance with environmental emissions targets, this led to improvements in their environmental performance. No company wanted to report to the government or shareholders that they exceeded the targets and thus were liable for fines. Clearer disclosure also forms a firm foundation for dialogue between companies and their shareholders on these issues which are crucial to the long-term performance of the businesses. Furthermore, information on environmental targets and performance measures enabled environmental groups to benchmark companies.

In the area of corporate governance disclosure, comparability and clarity are needed in terms of what should go into a corporate governance statement or report. Some business groups are of the same opinion regarding the need for useful disclosures. After the corporate scandals, the 2003 Davos World Economic Forum focused on restoring confidence and trust. At the head of the list for building trust was non-financial reporting which was thought to be a powerful management tool because it could alert companies to various risks and opportunities. It could also increase the legitimacy of business reporting by responding to stakeholder needs.[72]

An ad hoc group of experts was gathered together in April 2002 and they deliberated on what items should be included in the financial and non-financial disclosures on corporate governance based on best practice. They were able to extract the best disclosure requirements from over 100 codes on corporate governance. However, disclosure was not just to protect shareholders but all stakeholders. ISAR's concept of stewardship extends beyond responsibility to shareholders and encompasses all stakeholders. ISAR's examination of the leading codes revealed their convergence on corporate governance and it drew attention to best practices in this area. Their recommendations for disclosure covered the following items:

1. Financial disclosures

Financial operating results, related-party transactions and accounting policies

2. Non-financial disclosures

Enterprise objectives, ownership structure, shareholders' rights, structure, role and function of the board, composition and functions of the board's committees, duties, qualifications, training and remuneration of independent directors, board evaluation, succession planning, material issues related to employees and other stakeholders, independence of auditors, annual general meetings, timing and means of disclosure and "comply or explain".

[71] McKinsey Report , 2002.
[72] Mark Moody-Stuart (2003), "The Measure of a Good Company", *International Herald Tribune,* 25-26 January.

Their report, *Transparency and disclosure requirements for corporate governance* (TD/B/COM.2/ISAR/15), was discussed at the 19th session (2002) of ISAR. Delegations expressed appreciation to the ad hoc group for the quality of the report and emphasized the importance of ISAR's work since the IASB seemed to regard corporate governance disclosure as being beyond its remit. ISAR experts debated the location of the disclosures, that is, whether they were to be in the annual report or in a separate special purpose report. Some experts expressed concern that a separate corporate governance report could lead to repetition of information, especially in relation to financial information.

The ad hoc group pointed out that the location of disclosures, although worth debating for the sake of harmonization, was not as important as the disclosures themselves. Possible options were to include a reference to some of the financial information already in the notes to the financial statements, to put all such disclosures in a separate section of the annual report or to provide a stand-alone report. There was also a lengthy discussion of which enterprises should make the disclosures: listed companies, all entities of public interest, small and medium-sized enterprises? It was pointed out that the recommendations were relevant to all enterprises eager to attract domestic as well as foreign investment regardless of their legal form and size. An expert from a developing country explained that while there might not be stock exchanges in many developing countries, there were cooperatives, financial institutions and major enterprises that played a significant role in the economy. All these unlisted entities needed to provide adequate disclosures on their operations and governance. However, it was not practical to require such disclosures from SMEs, most of which were in the informal sector.

ISAR also debated the issue of transparency and its relationship to disclosure. Some delegates maintained that the concept of transparency was broader than disclosure and should be dealt with separately. Transparency could cover corporate policy, rules and regulations of the enterprise, processes and procedures, specific actions of management and employees. A member of the ad hoc group responded that disclosure in itself constituted transparency and that those who disclosed things properly were transparent. Another delegate maintained that in the case of Enron even though issues were disclosed in notes to financial statements, the company was not transparent to its shareholders. In relation to this debate, some delegates noted that transparency as part of corporate governance included not only external reporting but also internal reporting to the board of directors.

A number of delegates felt that it was important to consider the interests of all stakeholders, not just those of capital markets. In this regard, the report addressed the issues of environmental and social stewardship and placed them in the broader context of corporate governance. Delegates also discussed issues regarding independent verification of corporate governance information. It was emphasized that, as recommended in the report, there should be a statement about what information had been verified and how it had been verified.

In concluding the debate, ISAR agreed that the report provided useful information and a convergence of views on corporate governance disclosure. It also anticipated some of the new requirements in the Sarbanes- Oxley Act of 2002 and in the rules of the New York Stock Exchange and the National Association of Securities Dealers Automated Quotations. The delegates suggested that the recommendations be supplemented with examples of best practices and the work should include case studies.

D. Implementation of guidance at the country and company level

At the 20th session (2003), ISAR considered case studies of best practices for Brazil, France, Kenya, the Russian Federation and the United States of America. The studies revealed a fair amount of consensus on the level of principles. A number of common features of corporate governance disclosure were found including

- a consensus on what constitutes good governance and on its importance
- enforcement difficulties
- business preference for the voluntary approach
- US rules are taken as a reference point and have an impact on all other countries
- role of the audit committee and auditor require further examination
- IFSR are an expressed goal but implementation is not easy
- access to information is a concern everywhere
- social and environmental disclosure is making impressive inroads.

In the course of compiling the case studies, disclosure practices were surveyed and various weaknesses were encountered. Financial disclosures although required were not done in a way so that both shareholders and stakeholders could properly understand the nature of the business. Regarding non-financial information the following deficiencies were detected:

- Beneficial ownership was difficult to ascertain
- Disclosure regarding the board of directors was limited (qualifications, biographical information, other directorships held)
- Information on board training and access to external advisors was lacking
- Length of directors’ contracts and severance pay could not be found
- Disclosure on what other stakeholders consider “material” suffered from an absence of recognized standards or practices
- Boards generally did not disclose that they had confidence in the auditor’s independence or disclose the interaction between the internal and external auditors.

The comparison of the disclosure requirements of the countries with the ad hoc group’s recommendations gave cause for optimism. Countries have legislation and regulations that corresponded well to ISAR’s transparency and disclosure requirements. However, as discussed above, enterprise practice across the study group varied widely. Enforcement and legal recourse were of paramount concern. The case studies illustrated that disclosure had its limitations. No amount of disclosure or substantive regulation would be able to prevent individuals who are intent on defrauding enterprises from doing so. What is important to learn from the corporate scandals is that regulation can only do so much. If people who are to apply the rules are not educated in a manner which puts more emphasis on business ethics than on greed, the exercise of improving corporate governance will fail. This does not diminish the importance of disclosure as an oversight tool. A well-conceived disclosure regime remains one of the most effective oversight tools available.

At its 21st session (2004) ISAR reviewed the implementation of good corporate governance practices at the company level. The survey confirmed the difficulties of implementation in that while there was increasing convergence among national and international codes and guidelines, the disclosure practices and content of disclosures among selected companies varied greatly. In general the highest scores were associated with disclosure of financial results, accounting policies, and various governance structures and mechanisms. The disclosure items getting the lowest scores were disclosure of decision-making, impact of alternative accounting decisions, use of an advisor to the board, and board performance evaluation. At the conclusion of the session, ISAR agreed to consider further development in the area of disclosures and to update its earlier work.

E. ISAR's Guidance on Good Practices in Corporate Governance Disclosure

At its 22nd session (2005), ISAR considered the update to its initial guidance contained in *Transparency and Disclosure Requirements for Corporate Governance 2002*. Based on the case studies of best practices, the survey of implementation and recent developments, ISAR decided to widen the guidance. After discussion ISAR requested that its revised guidance be published and disseminated in order to improve the convergence of disclosures and corporate transparency and facilitate investment. ISAR's decision was welcomed by the Commission on Investment, Technology and Related Financial Issues (2006) where delegates commended the guidance for its usefulness and recognized the need for tools to promote good practices in corporate transparency and reporting.

The purpose of ISAR's guidance is to assist the preparers of enterprise reports in producing disclosures on corporate governance that address the major concerns of investors and other stakeholders. The guidance is relevant to enterprises eager to attract investment *regardless* of their legal form or size. It will also be useful for promoting awareness in countries and companies that are not adhering to best practices and are consequently failing to satisfy investors' expectations regarding corporate governance disclosures.[73]The main recommendations of ISAR largely followed the recommendations of the ad hoc group. However, there were a few additions because of recent developments. The new guidance spells out disclosure of the board's responsibility for overseeing the process of producing the financial statements. This is in line with the practice to require either the CEO or entire board of directors to take responsibility for the financial statements.

As for non-financial disclosures, the principle of "equality of disclosure" was added requiring that all shareholders receive information equally. Both the existence of a code of ethics and waivers from it should be disclosed. In the case of the failed company Enron, it had a code of conduct yet the board allowed the CFO to violate it. In addition to disclosing the number of directorships held by each director, ISAR recommended that the company policy limiting the number of directorships be disclosed. Disclosure of the selection and approval of external auditors as well as any requirements for rotation were added to ISAR's list. Given the importance put on the internal audit function by the Sarbanes-Oxley Act, ISAR suggested that the enterprise describe the scope of work and responsibility for the internal audit function. Lastly, to improve shareholders' rights, the enterprise should disclose how they can submit agenda items.

As part of its dissemination efforts UNCTAD organized workshops in Sao Paulo during UNCTAD XI and in Egypt with the Egyptian Institute of Directors, the Egyptian Ministry of Investment, the Cairo Stock Exchange, the International Finance Corporation and USAID.

[73] UNCTAD (2006). *Guidance on Good Practices in Corporate Governance Disclosure*, United Nations, Geneva.

The guidance has been used as a framework for improving corporate governance, both at the individual company level and across markets in a number of developing countries, particularly in sub-Saharan African and in Asia. It has been acknowledged as a valuable best practice guide by organizations such as the WTO, the OECD and the International Council on Mining and Metals. The impact of the guidance particularly in developing countries was immediate. In such countries, poor public and corporate governance practices contribute to underdevelopment. With the arrival of the guidance, national institutions in developing countries, whether dealing with financial reporting or governance issues had an authoritative source of guidance that their governments could not ignore as they were all members of UNCTAD. Regional organizations such as Eastern, Central, and Southern African Federation of Accountants went ahead and issued such guidance for both members and non-members to use and apply as appropriate.[74]

F. But challenges remain

While 200 national or regional corporate governance codes are reported to have been promulgated around the world, there are only two widely recognized international codes: the OECD "Principles of Corporate Governance" issued by governmental representatives, and the ICGN "Statement on Global Corporate Governance Principles" promulgated by institutional investors. Actually, companies operating in various jurisdictions could still be considered to face different disclosure requirements. While national accountancy bodies that have adopted IFRS and then applied them wholesale across all companies before realizing that they were largely unsuitable for SMEs, the adoption and application of corporate governance guidelines has not followed this pattern. There has been no wholesale adoption and then selective application in capital markets.

Financial reporting requirements are sometimes contained in company law. The company law is reviewed at regular intervals and current practices are incorporated into the revised law. So far comprehensive governance requirements have largely not been embedded in domestic law, making enforcement of compliance difficult or impossible. While it is often clear as to what constitutes a misdemeanour in criminal law, the issue is not so clear in the area of the conduct of business. Some countries still view bribery as a legitimate cost of doing business outside their national borders. This violates any code of corporate governance conduct. Similarly, the protection of minority interests is not practiced uniformly worldwide and the main losers are shareholders in developing countries.[75]

The future challenge for ISAR apart from continuously updating best practice remains implementation. There is currently a debate raging as to what constitutes full adoption of IFRS and equally, there will be a need to engage in the debate of what constitutes full disclosure of corporate governance.

Further work on corporate governance could cover

- disclosure for parastatals
- the location of the disclosures and a model format
- verification of corporate governance information and implications for the profession

[74] Ndung'u Gathinji and Paul Lee (2008), Comments on Chapter Seven: Corporate Governance Disclosure, July.

[75] Gathinji, 2008.

- clarification of what is “material” for other stakeholders
- more guidance on internal control and risk management
- the potential gap in corporate governance between listed and unlisted companies
- generalization of the "one share one vote" principle
- implementation guidance
- ways to evaluate the independence of directors from management and from majority shareholders
- effectiveness of the audit committee in terms of internal and external control.

Chapter VIII
Corporate Responsibility Reporting*

A. Introduction

In a rapidly globalizing world, interest in corporate responsibility (CR) continues to grow among a broad range of enterprises, investors, civil society and other stakeholders. The United Nations has undertaken various actions to respond to this interest and to promote positive corporate contributions to sustainable development. The United Nations Global Compact has become the largest corporate citizenship initiative in the world and continues to attract more signatories from all corners of the globe. The United Nations Principles for Responsible Investment (UNPRI) is attracting large numbers of institutional investors who see corporate responsibility factors as affecting their investments. With trillions of dollars around the world invested in funds that explicitly consider corporate responsibility issues, and with stakeholders demanding more non-financial information from enterprises, the call for clear, concise and concrete guidance on how to account and report for the various aspects of corporate responsibility has never been louder.

Accounting for the various aspects of corporate responsibility, using both financial and non-financial indicators and related information provides shareholders and other stakeholders with a more holistic view of an enterprise's activities and performance. This serves the goal of all corporate reporting which is to increase our understanding of a company's performance, and the quality of its management. Such corporate transparency facilitates investment decisions, and more broadly, allows governments and other stakeholders to assess an enterprise's contribution to social and economic development.

The demand for more information on corporate responsibility issues is becoming increasingly sophisticated, with greater calls for concise and comparable reports. It is an area where ISAR played a valuable role. Chapter Three discusses in detail why ISAR entered the field of CR when it took up the issue of environmental accounting in 1989. This chapter describes the extension of this work on how to disclose the social and economic impacts of transnational corporations.

* This chapter was written by Dr. Nancy-Kamp-Roelands. She is grateful for the contributions of Judy Kuszewski and Anthony Miller.

B. ISAR's guidance on CR indicators

1. Mandate

At the eleventh quadrennial conference of UNCTAD, in the São Paulo Consensus, member States recognized that the objective of UNCTAD's work is "to assist developing countries, in particular least developed countries (LDCs), to design and implement active policies for building productive capacity and international competitiveness based on an integrated treatment of, inter alia, corporate responsibility, enterprise development and business facilitation". Since its18th session (2001), ISAR has viewed reporting on corporate responsibility as one of the emerging issues in the area of corporate transparency. Within the framework of its mandate to promote harmonization of best practices in corporate reporting, ISAR concluded that, while the pressure for better reporting on social issues is increasing and enterprises are producing more information, the satisfaction of stakeholders with the quality of social reports remains low. Furthermore, concern was expressed that the lack of comparability in social reports makes such reports less useful for stakeholders. It was also observed that the lack of satisfaction with social reporting is imposing a growing burden on enterprises as they try to respond to the increasing demands of various stakeholders.

The Challenges of Corporate Responsibility

1) The corporate responsibility scene has been characterized recently by several trends, both related to the growing interest in the field. Firstly, large companies with household names are becoming more and more involved in corporate responsibility, including the likes of General Electric, Wal-Mart and even ExxonMobil. And secondly, the ranks of companies examining corporate responsibility in developing countries are growing rapidly.

2) This brings a number of challenges, such as the focus on innovation and value creation brought about by the large, mainstream multinationals, which lack the historical tendency towards concern with ethics and responsibility for their own sake, or for the purpose of simple market differentiation. In contrast, today's newcomers are focused on how sustainability management will help them command new markets and navigate changing market dynamics in their favor.

3) Another challenge is the need for corporate responsibility thinking and tools to be made as practical as possible, and as focused as possible on a company's normal business procedures and thinking. The growth in interest in corporate responsibility and sustainability reporting in the developing world means it is no longer possible for companies to depend on outside consultants and complex frameworks, and instead need to be equipped to understand the demands and meet the challenges themselves.

4) The current state of sustainability reporting is not much different from a couple of years ago, and indeed the key issues and challenges have remained in effect for some time. Less excitement about reporting rules the day than was once the case, but this is natural, given the growth in numbers of reporters and the general mainstreaming of practices. Indeed, there is widespread disillusion about reporting: companies complain of lack of readership, interest and response (and consider scaling back their reporting in light of this). Stakeholders charge that reports neither address what they should nor include adequate performance data (and turn to other means of engagement and sources of information).

5) This is even more serious as the global debate about sustainability issues has shifted fundamentally from 'why' to 'how' (and as such the stakes have risen). Climate change is the main catalyst and emphasis, with concerns about resources such as water and energy, food availability and prices and sustainability in supply chains. The 'how' demands more specifics in terms of actions undertaken, targets and performance, all of which increase reporters' fears of liability and beg the question of what an individual organization can disclose without harming its fundamental position. However, the case for reporting is as strong as ever, and business has a keen interest in making it work. Free enterprise and free markets depend on sufficient trust, which can only result from genuine transparency and accountability.

6) One important development in recent years has been the increase in investor interest in sustainability issues, often referred to as ESG or environment, social and governance. Following on the early efforts in the socially responsible investment community, many more investors are keen to understand the impacts of ESG on long-term value. However, most investors continue to see sustainability reporting as ineffective and inappropriate for them.

Judy Kuszweski, SustainAbility

ISAR agreed to "begin examining existing indicators so that corporate social responsibility reports would be comparable and would not impose unreasonable burdens on enterprises in developing countries".

The aim of ISAR's work in this area is to assist developing countries and countries with economies in transition to improve their enterprises´ communication with stakeholders in order to strengthen their ability to attract investment and develop international business linkages. ISAR decided to work towards this aim through the development of guidance on concise, comparable indicators on corporate responsibility reporting. Between its twenty-first session (2004) and its twenty-fourth session (2007), ISAR examined existing indicators, identified a core set of indicators, and developed a consistent reporting methodology. ISAR organized several roundtables, workshops and ad hoc consultations, which featured a broad range of stakeholders and experts in the field of corporate responsibility. These events facilitated an exchange of ideas and helped to identify useful corporate responsibility indicators and a reporting methodology.

2. Disclosure of the impact of corporations on society (2003)

In 2003 ISAR organized a workshop on the Disclosure of the impact of corporations on society. The two major objectives of this workshop were:

- To raise awareness among ISAR members of current trends, initiatives and issues in the area of reporting on corporate social responsibility
- To assess the impact of these trends on investor confidence and implications for accounting and reporting.

In particular, the workshop aimed at triggering discussions on the following points:

- Major issues currently faced by the preparers and users of corporate social reports
- The type of work that is needed to determine the most relevant items that would reflect the impact of enterprises' social policies and performance
- The potential need for additional input on a social reporting format, in particular in terms of harmonizing its content and improving the comparability of information
- The benefits of better corporate disclosure.

High-level representatives from a wide range of organizations, including research centres, international organizations, civil society organizations from Africa and Asia, transnational investment firms, trade union organizations, national and transnational corporations, CSR reporting initiatives, and international accounting organizations attended.

They explored the following issues during the workshop:

- The essential role of CSR in society today
- The development implications of CSR and the role of CSR reporting in private and public organizations' engagement
- Voluntary versus mandatory CSR practices and their influence on the quality of CSR reporting
- The limitations of current CSR reporting practices and initiatives in terms of the number of reports and scope of items reported and the lack of comparability and coherence in the information disclosed
- The importance of monitoring the integration of enterprises' CSR strategies at all levels of operations and
- Difficulties still faced by enterprises at the cutting edge of CSR reporting.

This event was particularly useful in bringing ISAR members to a common level of understanding of CSR and CSR reporting issues. It acquainted them with the views of the major stakeholders of the CSR agenda, reviewed the current state of development of reporting, and gave them the opportunity to understand and discuss the major issues regarding CSR reporting.

The workshop put ISAR on the fast track in terms of work on CSR reporting, particularly large enterprises' developmental impact. It revealed the gaps in current CSR reporting initiatives, whether business- or civil-society-driven, and crystallized the need for increased comparability of reports and the integration of developmental concerns that have so far been left out, while reducing the cost of CSR reporting.

The output of the workshop served as background material for the informal consultative group on CSR reporting that ISAR created to prepare its 21st session. The workshop proceedings were published in *Disclosure of the Impact of Corporations on Society* which provides an overview of trends and issues in corporate social responsibility reporting.

3. Review of the comparability and relevance of existing indicators on corporate social responsibility (2004)

As the result of such discussions, ISAR began examining existing indicators so that corporate social responsibility reports would be comparable and would not impose unreasonable burdens on enterprises in developing countries. It also agreed that the needs of small and medium-sized enterprises should be considered. It was suggested that ISAR's work should be done in collaboration with the business sector, organized labour, civil society, intergovernmental agencies and other UN or UN-sponsored initiatives such as the UN Global Compact, as well as with organizations undertaking specialized work in the area of CSR indicators such as the Global Reporting Initiative (GRI). Following the recommendations of its 20th session, UNCTAD invited a number of distinguished experts in the field of CSR and corporate disclosure to participate in an informal consultative group of experts (CGE). The objective was to solicit their views on the comparability and relevance of existing social indicators.

The group laid the ground for ISAR's deliberations in the area of social reporting. UNCTAD facilitated the CGE's work by examining 350 existing social indicators. A list of possible criteria was prepared to select the most relevant social indicators proposed by major CSR initiatives. The criteria were discussed at the CGE meeting in March 2004, and the results of those discussions and further exchanges via e-mail and telecom were presented at ISAR's annual session.

The CGE raised a number of issues regarding the context and scope of social reporting. The CGE agreed that information on sustainability should be classified as economic, environmental and social, but recognized that there was nevertheless a lack of consensus on how sustainability should be addressed in the context of social reporting. The CGE also debated whether this work should focus on reporting how corporations manage their social responsibilities or on the social impact of corporations.

These topics are interrelated, but focusing on one or the other would bring different results. A report on how corporations manage their social responsibilities would include policies, management systems and monitoring systems and their results pertaining to environmental, economic and social issues. A report on the social impact of corporations would focus in particular on social issues, and would include information on the impact of a company's activities, rather than its policies and management systems. It was decided to focus on impact. The CGE also addressed the issue of who are the potential users of social reports. It generally felt that, in principle, social information should be disclosed for the benefit of all stakeholders. Stakeholders were understood to be groups of persons that are affected by and/or can influence an enterprise, without necessarily holding an equity share of the enterprise. In the case of a social report, the users include investors, shareholders, customers, employees, trade unions, suppliers, the local community and policy makers.

The CGE discussed whether social information should be disclosed in the annual financial reports, or in separate sustainability reports, or both. This discussion mirrored the one ISAR had had when it discussed environmental accounting in previous sessions. The financial reporting framework is mainly concerned with events that increase or decrease the value of an enterprise's assets and liabilities. Because the impact of most social issues on the results of an enterprise is difficult to assess, they tend not to be included in financial reports. Another reason to separate social information from financial reports is the amount of information generally disclosed in sustainability reports, which justifies the production of a stand-alone report. But members of the CGE also saw benefits from adding social information to the financial report. All agreed that any social information that is material to investors should be included in the financial report, as investors are its prime users. The question remains, however, for information that, while it pertains to corporate accountability, may not be obviously or directly related to corporate financial results. Some members felt that this type of information may be of less interest to investors, and therefore would not belong in a financial report. Others felt that, just as corporate governance details provide important, if indirect, insights into enterprise value, so information regarding the social dimension of the enterprise would also contribute to a more complete picture of enterprise value. Another benefit from the inclusion of social disclosure in financial reporting would be increased visibility of social issues, which would improve the management of such issues. Thus, it was decided to focus on the annual reports as had been done in the initiative on environmental accounting.

ISAR opted to adopt an incremental approach, focusing first on indicators that in principle could apply to all or most enterprises, regardless of sector, size or location, the intention being to maximize the comparability of the indicators. In addition, these core indicators would address issues the enterprise had control over and for which it already gathered information as part of its management systems. Once a satisfactory reporting method for these issues was achieved, other issues could be added for which data gathering and interpretation were more complex and over which enterprises had no direct control, but which they might be able to influence.

During its 22nd (2004) session ISAR considered a report which reviewed the comparability and relevance of existing indicators on corporate social responsibility. The report provided an overview of major existing initiatives and regulations on corporate social responsibility (CSR) indicators, examining their comparability and relevance. In particular, it discussed the question of whether the comparability and relevance of CSR indicators could be improved by focusing on a more limited number of fundamental common indicators, or "core indicators". The report also discussed the scope of social reporting and the potential users of such reports, as well as possible criteria that could be applied in the selection of core indicators. These criteria were intended to promote the comparability and relevance of the indicators, and included: materiality, universality, verifiability and confidentiality. The criteria also required that potential core indicators reflect the impact of corporations on society, are linked to sustainable development, and do not generate reporting or data gathering costs that outweigh the related benefits of CSR reporting.

4. Guidance on Corporate Responsibility Indicators in annual reports (2005)

At its next session ISAR's background report identified the principal users of social reports, their needs as well as the indicators that are most frequently used by enterprises. The report was based on a study of relevant literature, a review of 15 sustainability reports selected for the European Sustainability Reporting Awards and discussions with the ad hoc consultative group. Based on the social indicators proposed by leaders in social reporting, discussions in the CEG, and the most frequently used indicators in the sustainability reports, ISAR identified the "core" indicators. Several criteria were used in their selection.

A. Quality characteristics

- Comparability
- Relevance and materiality
- Understandability
- Reliability and verifiability

B. Guiding principles

- Universality to maximize comparability
- Incremental approach
- Capable of being consistently measured
- Impact oriented rather than process oriented
- Link to sustainable development

C. Constraints on the selection of indicators

- Costs and benefits
- Confidentiality

• Timeliness

Table 1: Selected indicators

Group	Sub-Group	Indicator
Contribution to Economic Development		1. Total sales 2. Value of imports vs. exports 3. Total workforce 4. Employee wages and benefits 5. Payments to government 6. Labour productivity
Human Rights	*Security*	7. Number of enterprise operations with armed security
Labour Practices	*Equal Opportunity*	8. Number of female employees and ratio of male to female wages and benefits
	Workforce Turnover	9. Total number and rate of employee turnover
	Collective Bargaining	10. Percentage of employees covered by collective bargaining agreements
Human Resource Development		11. Average hours of training 12. Expenditure on employee training
Health and Safety		13. Expenditure on employee health and safety 14. Work days lost due to accidents, injuries and illness
Community Support		15. Voluntary contributions to civil society
Value Chain		16. Number of dependent enterprises in the value chain
Corruption		17. Number of convictions for violations of corruption related laws or regulations and amount of fines paid/payable

5. Review of the use of corporate responsibility indicators (2006)

Based on the preliminary limited set of core indicators on corporate responsibility a review of their use was undertaken. The corporate reports of 105 enterprises from 71 economies were surveyed to identify the level of reporting of the core indicators. The resulting data compared reporting practices between enterprises grouped by type of listing, country income and the form of the reporting. The findings of this analysis revealed that 12 of the 17 core indicators were used, at least partially, by 25 percent or more of the enterprises surveyed. Core indicators in the category of "Contribution to Economic Development" were the most frequently used among all enterprises, with 5 out of 6 of the selected indicators being reported on, at least partially, by 50 percent or more of enterprises. The indicators on community support followed. The least information was provided on human rights and corruption.

The research and discussion of the previous sessions were brought to their conclusion during the 2007 session of ISAR when the Group agreed to publish its guidance on core CR indicators in *Guidance on Corporate Responsibility Indicators in Annual Reports*.

C. Relevance of ISAR guidance on corporate responsibilities indicators

ISAR's guidance is expected to serve as a practical voluntary tool that will assist enterprises in their efforts to communicate with investors and other stakeholders. It also takes into account the cost/benefit considerations of preparing that information. It is a voluntary technical aid for, among others, enterprises, investors and regulators. The guidance can assist preparers of enterprise reports to produce concise and comparable CR indicators in their annual financial reports. In so doing, the guidance addresses the demand among investors and other stakeholders for more information on the broader socio-economic impacts of corporations on society.

Among the aspects that guided the selection of the core indicators are:

- the development dimension;
- performance orientation; and
- a focus on national reporting.

The guidance for each indicator included the following four points:

- **Background:** On the selection and relevance of the indicator;
- **Definitions:** Any specific terms that require clarification;

- **Compilation:** How to calculate the indicator; and
- **Presentation and disclosure:** Specific notes on reporting the indicator.

The core indicators in the *Guidance on Corporate Responsibility Indicators in Annual Reports* are contained in table 2. These indicators are a revised version of the indicators identified in 2005 (table 1).

Table 2: Selected indicators

Group	**Indicator**
Trade, Investment and Linkages	1. Total revenues 2. Value of imports vs. Exports 3. Total new investments 4. Local purchasing
Employment Creation and Labour Practices	5. Total workforce with breakdown by employment type, employment contract and gender 6. Employee wages and benefits with breakdown by employment type and gender 7. Total number and rate of employee turnover broken down by gender 8. Percentage of employees covered by collective agreements
Technology and Human Resource Development	9. Expenditure on research and development 10.Average hours of training per year per employee broken down by employee category 11.Expenditure on employee training per year per employee broken down by employee category
Health and Safety	12.Cost of employee health and safety 13.Work days lost due to occupational accidents, injuries and illness
Government and Community Contributions	14.Payments to Government 15.Voluntary contributions to civil society
Corruption	16.Number of convictions for violations of corruption relatedlaws or regulations and amount of fines paid/payable

Where existing indicators are already described either by the Global Reporting Initiative (GRI) Guidelines or the International Financial Reporting Standards (IFRS), these descriptions have been used to provide detailed guidance on the preparation of reports using the selected indicators.

Reactions to ISAR's Guidance

ISAR's guidance on corporate responsibility, and on eco-efficiency indicators and on including environmental issues in financial reporting has been useful in promoting a common understanding and framework for non-financial reporting. *Julie Mc Dowel*

The guidance of ISAR on eco-efficiency and on environmental issues in financial reporting has always been very important due to their innovative character since they emerged when there was very little orientation on those issues and that guidance has assisted, and will certainly continue to assist, those who prepare social and environmental reports. Concerning ISAR's guidance on corporate responsibility, due to the conciseness of the ISAR's guidance on corporate responsibility, it will become easier to prepare this kind of report and more useful for a larger number of companies in different countries. *Marcelle Colares Oliveira, University of Fortaleza, Brazil*

The guidance recommends 16 indicators. It is acknowledged that, to achieve transparency towards an enterprise's stakeholders and to present a more complete assessment of an enterprise's performance, additional information may be necessary that is specific to the enterprise's industry and geographic area. In order to provide this additional useful information, disclosure of the enterprise's policies and procedures as they relate to CR matters is very important as well as a description of the enterprise's location and surrounding communities and stakeholders. The geographic context of an enterprise's operations would need to be reflected, as locations can affect the materiality of certain issues. This is particularly the case of developing countries and the differences between legal norms and legal infrastructure that exist among countries. It would be useful to include a comparison with prior years and plans and targets for future years. Therefore, the limited set of core indicators, which provides a common benchmark for CR reporting, in no way precludes additional reporting to provide useful industry-, enterprise- and location-specific information.

D. Relation of ISAR's initiatives to those of other organizations

The work of ISAR in CR reporting took place within the broader international context of work by other international organizations. Such work includes the OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration, the United Nations Global Compact and the Millennium Development Goals, the Global Reporting Initiative's Guidelines on Sustainability Reporting, and the ISO Working Group on Social Responsibility, among others. The proliferation of global conventions and guidelines on CR has led to a growing general awareness of CR issues in developed and developing countries. As a result, there is an increasing demand for guidance on reporting.

The GRI has emerged as the leading standard setter in CR reporting. The sustainability guidelines of the GRI remain one of the most common sources of guidance for enterprises producing CR reports. In October 2006 the GRI launched its third version of its guidelines. Known by the abbreviation "G3", these were revised. The new G3 guidelines are similar to GRI's earlier guidelines and generally recommend a narrative style of disclosure, largely focused on management policies and procedures. This differs from ISAR's approach which focuses on impacts. The content of the draft G3 guidelines represents a thorough revision of the original 2002 Sustainability Reporting Guidelines. Only five of the original indicators were left unchanged in the new draft guidelines. In some cases the revision of an indicator was to improve clarity as to what companies were expected to report. In other cases, indicators were substantially rewritten. The overall number of GRI indicators has been reduced from the 97 indicators in the 2002 Guidelines, down to 79 indicators in the draft G3 guidelines. The number of "core indicators" has been reduced from 50 to 47. That being said the existence of 47 core indicators allows enterprises to pick and chose what they report. As already mentioned in this chapter, CSR advocates are generally dissatisfied with the lack of comparability in the CR reports.

In the making of the G3 guidelines, 27 indicators were deleted from the 2002 guidelines and nine new indicators were added. This includes instances where several indicators were combined into just one indicator and instances where one indicator was separated into multiple indicators. The deletions were made on the basis of several factors, including significant overlap with other GRI indicators, difficulty in application across different countries, and lack of clarity. Another significant addition was an increased emphasis on the reporting principles. GRI distinguishes between principles for the report content, the quality and the boundary of the reporting organization. Discussions continue on issues of materiality and the application of reporting principles. The GRI guidelines can be expected to continue to evolve over the coming years and ISAR can play a constructive role in this. In 2008 UNCTAD and the Global Reporting Initiative sought to strengthen cooperation in the area of CR reporting. Cooperation between UNCTAD and GRI will facilitate an improved exchange of expertise between the two organizations and strengthen the development of quality corporate reporting on sustainability issues. The annual ISAR sessions and workshops can continue to provide forums for delegates from around the world to share experiences on this subject, learn about the latest developments on GRI's standards and to provide constructive feedback on implementation issues.

Accompanying the broad trend of increasing CR reporting is the appearance of CR assurance reports. A range of organizations have been active in providing assurance statements as well as devising assurance standards. Two of the most widely used standards in this area are the AA1000 Assurance Standard created by the organization, AccountAbility, and the ISAE3000 standard created by the International Auditing and Assurance Standards Board (IAASB). While the majority of the IAASB's standards were developed for audits and reviews of financial information, the ISAE3000 standard was developed as a generic standard for assuring many kinds of reports. The AA1000AS developed by AccountAbility was specifically designed for sustainability reporting. While the use of assurance standards and assurance statements in relation to CR reporting continues to grow, it is still a developing field which can be expected to see a number of innovations in years to come. Both the IAASB and AccountAbility are frequent participants in the annual ISAR sessions and ISAR provides a useful forum for both disseminating their work as well as collecting constructive feedback from experts around the world.

1. What more should ISAR do in this field?

In partnership with member States, academic institutions, enterprises and other organizations, UNCTAD is promoting the development of corporate responsibility reporting through high level summits, technical workshops and research projects focused on corporate reporting. Given the numerous activities within the United Nations it is important these initiatives are further aligned. The activities of the various UN bodies can influence the demand for transparency in enterprise reporting. For example, the UN Global Compact provides a code of conduct in the area of human, labour and environmental rights. During the 2007 ISAR session the importance of Global Compact was apparent. The UN Global Compact requires its members to issue a "Communication on Progress", on their adherence to the Compact's ten CSR principles. Here ISAR can play a practical role, providing a forum for learning and dissemination as well as contributing to practical research, analysis and guidance on such forms of communication.

The investment community is an important driver for sustainable development. In making the right investment decisions, environmental, social and governance information plays an important role. A number of ISAR sessions involved experts from the financial community, including analysts, stock exchange officials and institutional investors. In the future, ISAR and its workshops can provide a useful forum for a range of public and private sector stakeholders to share best practices in this area. In February 2008 ISAR co-organized, with the office of the United Nations Principles for Responsible Investment, a public-private sector dialogue in Geneva on "Promoting Responsible Investment in Emerging Markets". Speakers were invited to give presentations about investor demand for environmental, social and governance (ESG) corporate reporting. Speakers came from UNCTAD, the UN PRI, the UNEP Finance Initiative, the International Finance Corporation, Standard & Poor's and KLD Analytics & Research. Mr. Paul Hilton, the Director of Advanced Equities Research at Calvert, chaired the event. With more than 120 people in attendance from governments, the investment community and academia, the dialogue provided a rich exchange of views. It was generally agreed by the experts that good corporate disclosure is an important tool for enterprises trying to attract investment. "This clear link between disclosure and the ability of enterprises to attract investment also extends to newer areas of reporting, including disclosure of environmental and social issues," said Nazha Benabbes Taarji-Aschenbrenner, the OIC of UNCTAD's Enterprise Development Branch. Speakers from UNCTAD, the IFC and the UNPRI emphasized this link, observing that many investors increasingly see environmental, social and governance issues as interrelated issues that reflect an enterprise's management quality and level of risk. It was argued that good practices in ESG disclosure indicated that a company was at least aware of these dimensions and in a position to address potential risks. Through its annual sessions and workshops, as well as its research and analysis on ESG disclosure, ISAR could continue to strengthen the understanding of responsible investment issues and provide practical support on the issues of non-financial reporting.

How can ISAR continue to improve the quality of CSR reporting?

Much of the basics already exist; the theory and consensus on reporting principles are already developed. However, most companies and their service providers have yet to live up to the intent of these principles. It is perhaps more important for companies to think less in terms of traditional, stand-alone sustainability reports and more in terms of integrating sustainability into risk management and the competitive landscape – and offering more robust and real accountability through these channels. At the same time, readers and company stakeholders would benefit from more knowledge of business, so they can better understand the impact of sustainability issues and comprehend a company's actions in response. And lastly, there needs to be much better collaboration across the relevant professions (accountancy, advocacy, investment, and consultancy) to ensure the coherence of concepts and a better response from the corporate community. UNCTAD can certainly play an important role in encouraging this collaboration.

Judy Kuszewski, SustainAbility

Now that ISAR has developed eco-efficiency indicators and guidance for corporate responsibility indicators the next step could be further guidance on the reporting process itself, not only for external reporting but for management accounting as well so that enterprises can achieve a better environmental and social performance. Transparency is the key for organizational change promoting sustainable development. In the next five years ISAR could also identify how the various initiatives in different UN bodies in relation to climate change might be enhanced by the consideration of transparent and consistent corporate disclosure.

Chapter IX
ISAR and Accounting by SMEs*

A. Case for differential accounting and reporting for SMEs

This chapter addresses an area where ISAR, over several years, conducted research and put forward innovative proposals that national jurisdictions could put in place a multi-tiered approach to accounting regulation. The purpose was to encourage informal micro-businesses in developing countries to produce accounts as an aid to their economic development. The project evolved over several years and resulted in recommendations and guidelines that were influential in shaping world thinking on the nature of accounting regulation.

Writing in 2008, it seems uncontroversial that smaller business should face different accounting rules than large companies. However, this is, in fact, a very recent development which ISAR was at the forefront in promoting. Twenty years ago standard-setters routinely rejected any notion of there being more than one set of accounting principles in force in any single jurisdiction. The European Union's Fourth Company Law Directive recognised differential reporting to the extent that it identified small, medium and large companies in the application of its requirements, but all companies faced the same recognition and measurement rules, with relief given only in terms of public disclosure. The Financial Accounting Standards Board (FASB) in the United States had asked itself the question in the 1980's and come to the conclusion that differential reporting was not worthwhile. In particular they noted that banks opposed the notion because they would have to develop different evaluation criteria for borrowers' balance sheets.

Nonetheless, all this was to change quite rapidly. For example in the early 1990s a briefing paper on differential reporting prepared for a professional accounting association was considered too controversial for publication, and yet very shortly afterwards the United Kingdom’s Accounting Standards Board (ASB) had asked its professional bodies to review the case for a separate set of rules for smaller business. The paper, prepared by the Consultative Committee of Accountancy Bodies (1994), recommended a single standard for smaller companies and this initiative became the Financial Reporting Standard for Smaller Entities (FRSSE) which was first issued in 1997 and formalised a simplified reporting regime for businesses with fewer than 50 employees.

* This chapter was written by Robin Jarvis, Richard Martin and Peter Walton.

The prevailing sentiment in favour of a unified system was clearly beginning to be questioned, but it was nonetheless a challenging initiative that ISAR took in deciding to look into this question from the perspective of developing countries.

The case for differential reporting in a developed economy is that small businesses typically have relatively simple transactions and do not need either the complex accounting or detailed disclosure requirements that are necessary to protect investors in the public capital markets. To impose such accounting causes higher costs because professionals trained to apply it need a higher level of knowledge than is necessary for the SME. In addition, SMEs typically have fewer transactions, and so the fixed costs of their accounting bear disproportionately heavily on them. Essentially, the argument is that the large, listed group is a quite different economic animal than the small, private entity, and the reporting system that aims to reflect the economic reality should itself be better aligned with the economic realities.

Another influential motive for ISAR to develop a differential financial reporting framework was because of the growing complexity of accounting standards. This complexity resulted in increases in the costs of preparing financial statements and a growing problem with compliance.

There are additional issues for developing countries. Generally speaking, developing countries have evolved no indigenous accounting rules that reflect their economic environment. Usually they have either been influenced by a colonial past or by significant trading links and if they have financial reporting rules, they are based on those of developed countries. To that extent they are working from the same model as developed countries, but their need for simpler accounting is much greater since they do not usually have many large indigenous companies.

B. SME Accounting Needs in Developing Countries

ISAR took the view that some form of accounting is necessary to permit economic growth. A small business without accounts has no management information with which to control and improve the business, and no support to negotiate borrowing to expand the business. In the first instance the 16th session voted to carry out some research into the accounting needs of developing countries. This research was undertaken by a team based at the University of Geneva. It consisted of a literature review that included preparing an analysis of the regulatory framework in ten countries and field trips to three African countries (Botswana, Cameroon and Kenya) to gather data about the situation on the ground.

ISAR's background report, based on this research, was presented to the 17th session. The material from the field trips showed that the existing reporting framework in each of the countries was an import that had survived from the colonial period and there was no structure for dealing with accounting by embryo business. In fact it appeared that the vast majority of employment in these countries was in micro businesses and hardly any of these kept any accounts.

To the extent that technical help was available, there were international audit firms and members of networks who were mostly servicing subsidiaries of transnational corporations. They reported that small businesses rarely used their services, and if they did, it was to deal with a sudden need such as bank borrowing or a tax inspection. Once the emergency was over, the client did not come back, nor necessarily pay their fees.

In Botswana there exist small business service providers that supply accounting, tax and other advice to other small businesses. These are not subject to any professional scrutiny but provide technical help to small businesses at a much lower cost than the professional accounting firms. In Kenya a service called 'the barefoot accountant' was set up as an experiment with foreign aid and offered a low price itinerant book-keeping service. However, the take-up was low. SMEs sometimes refer to these as “brief case” accountants and are dubious as to the utility of their services.

In general it appeared that businesses saw financial statements as undesirable. They were thought to be costly and their only purpose was to provide a stick with which the tax authorities would beat the owner. Most preferred to keep a low profile and try to bribe their way out of any tax demands. Most people running micro-businesses did not have access to a computer and some were illiterate.

The report concluded that there were many infrastructure problems which could not be addressed by ISAR, such as literacy and any appreciation of the utility of financial statements in managing a business and making it grow. However, to the extent that it could provide a model framework, the report considered that ISAR could make a contribution that would help developing countries to address at least the regulation of accounting in a manner that put the fewest obstacles in the way of micro-business.

The report suggested that a developing country could need a three or four tier approach to accounting requirements. The global trend towards the use of IFRS had at that time yet to establish itself but ISAR already had a policy of supporting IAS/IFRS as the appropriate recognition and measurement rules for large companies. The report accordingly recommended that listed companies should use IFRS, but privately held SMEs should have a simplified version of IFRS that addressed only the kind of transactions and disclosures that were likely to occur in this segment of the market.

However, it was recognised that the bulk of small business in a developing country was likely to be below even this level (i.e. financial statements based on the full IFRS), and the report suggested that there should be at least one level of further simplification for micro-businesses that provided the simplest of accrual accounting bases. A possible fourth level was suggested as cash accounting for businesses that were just entering the regulated area. This fourth area could also be considered as a transitional period for the third level.

The ideas underlying these suggestions were that small businesses should face the lowest obstacles to entering the visible world of accounting: the accounting should be as uncomplicated as possible and consequently as cheap as possible. Businesses should only start to move up the chain as they themselves grew economically stronger, needed more advice and could afford to buy it. At the same time, training costs for service providers could be kept moderate by organising technician services dedicated to supporting different levels of complexity.

C. ISAR's Approach to a Guideline for SMEs

The 17th session of ISAR accepted the background report and decided that it should appoint an ad hoc consultative group to draft guidelines which could then be submitted to the annual session.

Meeting in Geneva, the committee debated the structure that should be proposed and agreed on a 3 level model. Level 1 would be public interest entities which should follow full IFRS. Level 3 would be a very simple system of accruals accounts for the smallest entities. Level 2 would cover all those in between. The committee then started more detailed work on level 2. It decided that it would take the United Kingdom's FRSSE as a model. This incorporates all the United Kingdom's standards thought relevant to small business into a single, simplified standard. The selection of material would be informed by two criteria. On the one hand, the drafting would start by cutting down the existing international accounting standards (IAS) back to their basic principles. IAS was written at that time with bold type paragraphs indicating the principles and regular type amplifying them. The bold paragraphs were selected and formed the starting point for the level 2 guidance.

The other criterion was an application of what is known as the Pareto principle or the 80/20 rule. This is that a small amount of effort (20 percent) will often achieve the bulk (80 percent) of the task in hand, but completing it in all detail will take a disproportionate effort. The idea in the context of an SME guideline was the hypothesis that 80 percent of transactions would be covered by 20 percent of the existing standards.

The committee also started out with the constraint that it would not deviate from the recognition and measurement rules of full IAS. This was primarily a political decision. In the past the UN had decided that (a) it would not issue recognition and measurement standards, and (b) it would support IAS. Some people thought that if the working committee started modifying the recognition and measurement rules that would be seen as breaking these commitments, and some countries might bring pressure to bear to halt the work on SME accounting. It was also thought that modifying the rules would cause the International Accounting Standards Board (IASB) to withdraw cooperation. In fact a senior member of the IASB staff became a member of the drafting committee.

Another issue that arose when drafting material for SMEs was that of defining what is meant by an SME. To take an extreme case, the FASB when it talks about small companies, means small *listed* companies. In many developing countries, an indigenous company with 250 employees would be quite significant to the local economy and would be relatively rare, whereas in countries such as Germany, such entities are the backbone of the SME economy. The committee came to the conclusion that the boundaries at which a business moved from level 3 to level 2, and from level 2 to level 1 could not be mandated by the UN because they would be specific to each country. Just as the economic nature of a small company varies with size, it also varies with the national context in which it takes place. However, the committee had in mind for level 2 the working hypothesis that a business in that category would most likely have 10 or more employees, but might have as many as 250.

While the UN guideline was intended to be a stand-alone document, the committee also needed to take a position about what a business should do if the transaction they had was not covered in the SME guideline but rules existed in full IAS. This would be unavoidable in applying the Pareto principle. The committee decided to recommend that businesses should be able to refer to full IAS in such circumstances for guidance, but using this fallback did not oblige a company to switch to full IAS.

The two main tasks for the committee, within these constraints, were to identify which IAS needed to be included, and then to amplify the bold type paragraphs and re-order them into a coherent sequence of material for SMEs. The question of what topics to include interacts with the notional size of the SME and the type of economy in which it would be operating. The technical areas that the committee considered and where there was not a strong consensus within the committee were: pension accounting (IAS 19) consolidations (IAS 27) cash flow statements (IAS 7), financial instruments (IAS 39), deferred taxation (IAS 12) and investment property (IAS 40).

The committee proposed to exclude IAS 19 on the basis that SMEs rarely had pension schemes, and if they did, they were likely to be multi-employer schemes, which, under IAS 19 do not involve any recognition of assets and liabilities. The committee debated quite fiercely the issue of whether SMEs were organised as groups. The majority thought they were not but if they *were* groups, they should maybe not qualify for SME accounting, although some people thought strongly that SMEs did often have groups as part of their strategy for financing assets and partitioning them. The example cited was Canadian taxi-drivers, and this illustrates the hidden impact of assumptions about the size of the typical business and the nature of the economy where it is working. Cash flow statements were also a subject where the committee was quite divided but they decided to retain them.

IAS 39 is the bane of banks and insurance companies with its complex rules on accounting for derivatives and other financial instruments. The committee considered that this was the most complicated of the IAS and should be excluded. Under IAS 39, trade receivables and payables are accounted for under historical cost, and most members thought that SMEs did not typically enter into contracts for derivatives or hold financial instruments for speculative purposes. If they held financial assets these were likely to be held to maturity, which again would qualify for amortised cost under IAS 39. The view was therefore that the financial instruments likely to be held by SMEs would anyway be accounted for under historical cost, and therefore the UN guideline should just reflect that.

The committee needed less debate about deferred tax and investment property. They considered that SMEs would be likely to align their depreciation policies on tax depreciation for simplicity, and therefore timing differences could be ignored. IAS 40 Investment Properties was also excluded on the basis that this was not a common SME activity.

This draft level 2 guideline was submitted to the 18th session where a number of drafting points were raised and the committee continued to work on it and started work on the level 3 guidelines. The object for Level 3 was to put together simple accruals accounting guidance on the assumption that the business was uncomplicated and needed little more than the ability to recognise credit transactions instead of just cash transactions. The Level 3 accounting framework contained just two financial statements – income statement and balance sheet based on historical cost and a simple accruals accounting approach. It was also made clear that it was not envisaged that the Level 3 Guideline would take the form of an accounting standard but an accounting framework that would meet the needs of micro entities primarily situated in developing countries. The guideline was presented to the 19th session which agreed with proposed guideline subject to a few amendments. These amendments where subsequently adopted and the guideline was published in 2003.

D. The Impact of the Project

One of the disappointing outcomes of the work was that the ISAR session that finally approved the Level 2 Guideline also made it clear that while member States thought they were needed and would be useful, they would have preferred the newly-formed International Accounting Standards Board (IASB) to have drawn up the material. Some of the SME committee members were somewhat frustrated at this because they thought that the IASB members had little or no experience of SMEs. Also they thought the process would take a long time if done at all, and the IASB would be reluctant to issue what could be seen as a diluted form of their standards when the IASC had had so much trouble with companies adopting IAS voluntarily but excluding the difficult ones (this was known as using 'IAS-lite'). At least one IASB member pointed out when the subject was raised at the IASB that the board's mandate was to produce standards for the international capital markets, not for private companies. Another board member, however, strongly took the view that they could not have lots of other organisations setting themselves up to modify IAS, only the IASB should do that.

In the end, under pressure from the World Bank and the European Commission, the IASB reluctantly decided it would itself issue an SME standard (Level 2). It should also be noted at that time the IAS and subsequently IFRS were growing in complexity in terms of measurement and recognition issues as well as more extensive disclosure requirements. Those countries which did not have their own GAAP could not find relief from this burdensome reporting requirement for those private companies that were required to produce general purpose financial statements. However, these countries urgently needed rules for SMEs were encouraged to wait for the 'official' cut down version of IAS. Inevitably the UN guidelines were effectively sidelined. However, this does not mean that they did not have an effect. Some countries, such as Kenya, Hong Kong, China and Pakistan were unwilling to wait and used the UN guideline as the model for their own national rules. In a recent survey of ISAR's work, ISAR experts said that the most useful work to date was on accounting by SMEs.

The existence of the UN guidelines also gave weight to the argument that a single set of accounting rules to cover all businesses was not appropriate and helped overturn something that had been an accepted wisdom for decades. The UN was also the first to point out that once you looked seriously at differential reporting, it became clear that even two levels of rules were probably insufficient. The argument up to then had been whether you needed a second tier, whereas the UN jumped straight to a multi-tier approach.

It is difficult to assess what impact the UN guidelines had on the IASB, the World Bank and other players in accounting regulation. The very existence of the guidelines was probably a powerful incentive for the IASB to take up the subject, since if they waved it away, they risked the UN guidelines becoming the authoritative document and the initiative would be difficult to regain. When the IASB did start work on their project, the staff looked very closely at the UN SME Level 2 guideline and started their own first draft on the same basis of using the bold type paragraphs as building blocks and trying to exclude complex transactions.

E. The Situation Now

At the time of writing, the IASB has devoted a great deal of time and effort to work on its own SME standard, but has not yet issued the final version. This will likely appear in 2009. The UN's SME committee were quite correct in their assessment of how long it would take. In fact, South Africa adopted the IASB exposure draft as a standard in 2007 because it could wait no longer.

The long delay was caused by a number of factors. One of these was the IASB's decision that it should issue a discussion paper for most standards. This means issuing a final standard is a three-stage process which it is difficult to complete in less than four to five years. In addition the staff has consulted widely and the exposure draft was subjected to extensive field testing. In our view, the process was also lengthened by the problem that some IASB members were opposed in principle to the very idea of an SME standard and fought every concession that the staff proposed. The two board members who were most strongly opposed made sure that all stages of the IASB's due process were conducted as extensively as possible.

The exposure draft has ended up being much more extensive than the UN product, and many of the UN exclusions (pensions, group accounting, financial instruments, and even deferred taxation) have been retained by the IASB, albeit with some simplifications as regards recognition and measurement. The final version is likely to be longer still as for most items there will need to be guidance set out and not excluded or just dealt with by a cross reference to the full IFRS. On the other hand, the IASB product will likely be a proper stand-alone book. It includes its own conceptual framework, and businesses that follow the *IFRS for private entities* will have the freedom to analogise or use the conceptual framework to deal with transactions not covered by this standard. They will not be required to fall back to IFRS.

However, the most significant difference between the two is probably the notional target business. In the debate the IASB specified that they had in mind a 50-employee business employing someone to handle their accounting, not a 'mom and pop' corner shop. This means that they implicitly accept a need for at least three tiers of accounting rules. The IASB confirmed that there would probably be a need for something simpler, but that would not be provided by them but by somebody else. However, it also means that the *IFRS for private entities* is likely to be too complex for SMEs in developing countries. It appears to be oriented more towards Europe - although some European national standard-setters are forecasting that the most likely use of the standard even in the EU is as a model from which they will craft a cut-down version which they will enact as national rules.

> **IASB Draft Standard**
>
> The SME work of the IASB must be critically assessed. The draft SME standard is still considered by many to be too difficult to be applied by what is usually considered to be a small or medium-sized entity.
>
> Karel Van Hulle, European Commission

It remains open to question what will be the value of the IASB standard to developing countries. South Africa's experience should be illuminating as far as that goes. During the development of the IFRS for Private Entities by the IASB, the International Federation of Accountants's Small and Medium Practices Committee commissioned researchers to examine whether the proposed standard would satisfy the needs of preparers and users of financial statements. The research findings indicated that the standard was still overly complex for SMEs. To us it seems that not enough attention has been paid to the infrastructure issues of the cost and availability of professional support services which are impacted by the complexity of the SME standard. Smaller entities in developing countries are likely to find that the IASB product covers many issues that are not relevant and still leaves them searching for cheap and basic accounting rules. This evidence on the usefulness of the IASB product has also clearly raised the significance of ISAR's Level 3 guidance. If IASB's level 2 is too complex but governments adopt it anyway because it has the IASB brand, it becomes even more important to have level 3 available for simple businesses. IFRS for Private Entities is unlikely to take the cost burden away from micro and small entities. ISAR did review Level 3 in 2007 through its ad hoc consultative committee. Some revisions were made to the Guidelines and these will be presented to the ISAR session in November 2008. It may well be that following the final publication by IASB in 2009, the overall ISAR work needs to be reviewed and adjusted to provide something simpler than the IASB model. In polling ISAR experts about future work, experts from Australia, China, Canada, France and the United Kingdom wanted to return to this issue.

We would like to think that ISAR's contribution to the differential reporting revolution was considerable. Its work had something of a pathfinder role in the international field and gave focus to a practical need experienced by many UN member States. Although we would have preferred the UN guidelines to have been used directly, with perhaps an independent body to maintain it, we think that the ISAR initiative was significant in putting SMEs on the IASB agenda. We also note that the ISAR committee covered exactly the same questions that the IASB had later to debate, although ISAR did so much more quickly and more cheaply.

Chapter X
The perspective of Developing Countries on accounting and the work of ISAR – the experience of Brazil[*]

A. Introduction

1. Why accounting matters

It is not uncommon that accounting is regarded as a "second priority" issue in the view of many. Economists, government officials, congressmen, among others, in many jurisdictions still tend to hold the old and outdated misconception that equates accounting with bookkeeping, and often label accounting as a mere technique. Accountants are looked at as late-comers to the decision-making process. This mistaken approach usually considers that accountants are the ones that come after the death, just to report what the \`entity\` has died of. Dividends and taxes being based on past performance strengthen the incorrect conclusion that the accountants main and sole role is to \`merely close last year\`s books\`.

Correcting that misconception starts with a proper understanding of the focus of accounting. In the case of the corporate sector it is to keep track of and to report to the users of accounting information the changes in wealth in order to forecast future cash flows and make economic decisions. Wealth measurement in accounting focuses on the \`equity\` section of the balance sheet. When an employee arrives to work every workday (therefore entitling him or her to the agreed compensation), when equipment is put into operation (therefore initiating the reduction of its productive capacity due to current usage), when raw materials are processed for production (therefore incurring production costs), when finished goods are sold (therefore generating revenue), when repairs are made to office or production equipment (therefore incurring maintenance expenses), when debt is contracted or capital is raised (therefore giving rise to interest or dividend payments), wealth is affected and future cash flows are impacted.

Accrual for bad debts is not a mere representation of poor credit decisions taken in the past. It is supposed to represent management\`s best assessment of the risk that sales on credit may not be collected in the future. In spite of all legal efforts available to collect sales receivable, management may say to shareholders: \`let me hold and not pay you dividends for a while since the expected profit from this sale is just temporarily delayed (in which case dividends may be paid later) or it is a permanent loss (in which case dividends will never be paid out). The way accounting deals with the uncertainty about this particular future cash flow is by estimating an accrual for bad debts.

When an airplane lands smoothly and taxies to the terminal, an accountant sees depreciation taking place – both the manufacturer and the insurer of the aircraft have rigid requirements regarding the maintenance of the respective landing gear, and force the airlines to undertake severe security measures, usually defined in terms of how many landings are permitted

[*] This chapter was written by Nelson Carvalho.

before preventive maintenance takes place. This implies that the useful life of the landing gear is defined at the inception of the operation of the aircraft, and accounting captures that economic event `via` depreciation.

Pretending that accounting is confined to bookkeeping is not only an old-fashioned view – but it is also plain wrong. Accounting is one of the most powerful communication tools developed by mankind over the centuries. A more accurate view of the role of accounting is achieved when one understands its main three tasks: it first must IDENTIFY the economic event that is taking place in the life of the entity. Then accounting must PRICE that economic event. And finally it must assemble similar economic events/transactions and REPORT them.

Economic events, like the examples cited above, take place every day, hour or minute in the life of corporations, independent of the existence of accounting. But the whole purpose of management is to understand when and where those economic events should take place for the ultimate goal of creating shareholder value. This value, or shareholder equity, can vary in one of two ways or in any combination of these: equity can INCREASE between two moments in time and accounting usually identifies the cause as coming from PROFITS or CAPITAL INCREASE, or it can DECREASE due to LOSSES or CAPITAL REDUCTION. Equity or wealth can also CHANGE IN NATURE even without movements in values. Capital invested in property tells a totally different story about an enterprise than the exact same amount of capital invested in marketable securities since the liquidity factor is absolutely different between these two situations although wealth may have the exact same total in both cases.

Presume each and every economic event affecting equity in a corporation is promptly recognized. The next job is to MEASURE or PRICE it. And here comes a second and daunting task of accounting, as there is not only one, single measurement basis. Historical cost, historical cost adjusted for inflation, replacement cost, and market values are some of the many alternatives of pricing economic events affecting equity – which is more suitable for which transactions and when?

Then comes the last and perhaps most challenging duty of accounting: how to summarize the millions and millions of similar economic events or transactions that take place continuously in the life of the corporation and REPORT them in an intelligible way to users?

Certain users are keenly interested in past performance. The tax authorities surely want to know how much of the past period`s profits will be reported and ultimately paid as taxes. A great number of small investors are naturally expecting dividends from the past period`s profits.

But the theory of finance holds that the most important use of the end product of accounting, the financial statements, is to allow economic decisions to be taken based on forecasted future cash flows of the reporting entity. The vast majority of users are not primarily interested in how well or poor last year was for the business. What they are really interested in is how management will maintain or enhance good past performances and how past bad performances will be avoided IN THE FUTURE. The past performance is crucial as a reference point for the future. Will sales on credit be collected? Will investment in financial instruments become positive cash flows upon maturity? Will inventories be sold to customers? Will payables be honored at agreed or contracted amounts and dates?

All these reflections are based on a centuries` old saying: one cannot manage what is not measured, and one cannot measure what is not known. That is the essence of accounting. It is the basis for knowledge of where the corporation is likely to go having in mind where it has been. It identifies the factors affecting the changes in wealth, measures them and reports them properly – what other field of human knowledge can best meet these challenges other than accounting?

2. Accounting and Socio-economic Development

The whole exercise of managing a corporation is that of managing risks. There is no such thing as `eliminating risk` - risk is inherent to business life. The challenge is to reduce it to an acceptable level. One of the big risks businesses face is to make expected revenues from sales exceed the costs of generating them. Business assets are expected to generate returns over and above the costs to acquire them. Costs to acquire those assets include the cost of capital (i.e., interest to lenders and remuneration of shareholders). Low capital costs motivate entrepreneurs to invest and move their enterprises ahead.

The issue then is how to reduce cost of capital to levels where positive returns are more likely?

Accounting plays a key role in mitigating business risks. Uncertainty comes from lack of knowledge and is a key risk faced by creditors and investors. In facing uncertainty, capital providers tend to raise the remuneration for the funds they are willing to provide until they simply suspend any provision of such funds at all. Therefore, the great task is to reduce the cost of capital by reducing the risk of uncertainty due to lack of knowledge about how the corporation is run, what it achieved in the past and what will future cash flows be. How is that ultimately accomplished? It is through informative, transparent, clearly understandable…*financial statements*, the end-product of accounting.

If capital is made available to entrepreneurs at reasonable cost, they tend to create businesses by acquiring assets that will generate positive future cash flows. In the economists` jargon, entrepreneurs will create employment and income, reduce unemployment, raise economic activity, reduce poverty, and pay taxes. The role of accounting is to reduce the risk of the unknown in the performance of corporations so they can play the vital role of promoting economic development.

3. The Dialects of Accounting

Accepting that accounting can reduce uncertainties about expected future cash flows of a corporation, what should guide the preparation of related financial statements? History shows that many jurisdictions originally considered it their sovereign right and their task to make accounting and reporting rules. In common law countries this task is generally left to standard-setters in the private sector. In codified law countries governmental bodies make the rules– and in many cases more than one body is involved-- (i.e., in banking, capital markets, insurance industry, and other regulated industries). Often tax legislation lays down strict rules for tax accounting with perverse effects on financial accounting. Even worse are the cases where accounting standards are embodied in company law since the tendency of lawmakers to modernize outdated legislation dealing with accounting is close to zero.

Capital markets are the key drivers of transparency and quality in financial reporting. The coexistence of capital markets and the legislative approach towards accounting standard-setting has been a poisonous mix. There are about 200 member States of the UN General Assembly – that implies a possibility of about 200 different sets of accounting standards around the globe – perhaps the most vivid example of a Tower of Babel in our times.

A corporation seeking to raise funds abroad would have to comply with as many different sets of accounting standards as the number of countries it operates in. While some developed economies were successful in developing high-quality accounting standards for their jurisdictions, the `generally accepted accounting principles` remain the `domestic GAAP`. Their stock exchanges might have been international in terms of listed companies headquartered abroad, but the GAAP these foreign listed corporations had to follow was the domestic GAAP prevailing in the home of the stock exchange.

As virtually no corporation could pretend to be free from complying with its own home country`s GAAP, getting listed on a foreign exchange forced that entity to prepare financial statements under at least three sets of accounting standards: the financial accounting GAAP of its home country, the tax accounting requirements of its home country and the GAAP of the country in which it chose to have a second securities listing. Imagine the huge corporations of today, operating with affiliated or subsidiary companies in, say, 50 countries – the transaction cost of preparing 50 different sets of financial statements to comply with the requirements of the countries in which they are established, plus about a dozen or so sets of financial statements to comply with requirements of the countries where they have debt or equity instruments publicly traded, plus 50 sets of tax accounts…all that may easily be described as intolerable, a true nightmare, and a waste of financial and human resources. And to that it may be added the time consumed in reconciliations among them all.

The intelligent correction of this absurd situation could be only one: the agreement of one, sole, robust, sound set of genuine international GAAP. It would not be an export of one country but an international set of GAAP in terms of SUPRA national accounting standards, one that would be BORN international.

That mission is being accomplished thanks to the successful efforts of the International Accounting Standards Board. Experience suggests that the day will come when each and every corporation on the face of earth will comply with only one set of GAAP for its financial reporting both at home and abroad, and transaction costs will be dramatically reduced with the extraordinary effect that its performance will be understood anywhere a financial analysis is undertaken for the purposes of portfolio allocation and economic decision-making.

A very positive side-effect of the international financial reporting standards` process is to reveal to the eyes of many that accounting does not belong to accountants – it belongs to the company.

It is now clearer that in any other time in the history of the corporate world that financial statements do require expert and in-depth participation of lawyers, engineers, economists, human resource specialists, actuaries, and managers at all levels of the corporation. Hedge accounting, share based compensation, fair value, contingencies` assessment and impairment tests, to name a few, demand a concrete and effective partnership between specialists and accountants to come up with meaningful information. And the definition of `meaningful information` in the accounting process could well promote two concepts: 1) disclosure drives behavior, and 2) accounting follows economics. These are solid candidates to be the deep roots upon which the foundation of accounting may be built.

B. International Standard-Setting, ISAR and the Developing and Developed Economies

As a matter of introduction to this section, a myth must be dis-spelled – that in terms of the quality of accounting standards, the world is two-fold – developed nations on one side and developing nations on the other (together with economies in transition). This is a false perception of reality. Mere observation suggests that, yes; developing countries have fewer human and financial resources to invest in the search for answers which accurately reflect economic events in financial statements. Developed economies have an incomparable advantage over developing economies in this aspect. This gap is the result of the differences in both the general and accounting education in developed and developing countries.

However the `developed economies` are far from universally and collectively deserving the label of `owners of high quality accounting standards`. Differences among domestic practices are so large and frequent that it is impossible to call them all `high quality, robust sets of accounting standards`. Accounting standards in certain jurisdictions known as `developed economies` are poorer and of lower quality than a few in force in certain `developing economies`.

Now that I have covered the basic challenges in accounting, we can examine the role of ISAR. Its origin in 1982 and evolution have been discussed in previous chapters. Its role has never been limited to just helping and supporting developing economies and economies in transition. Developed economies could well profit from its ideas and exchange of experiences as well as its identification of problems and consensus- building.

During ISAR's sessions of the last 25 years of which I had the privilege of attending 17, complex problems in accounting were examined in relation to existing accounting standards and it was apparent that there were weaknesses in these standards, irrespective of whether they were coming from developing or developed countries.

As mentioned, the IASB has played and keeps playing a vital role in the development of a robust set of accounting standards. The job it did and is doing cannot be undertaken by any other organization.

However, ISAR takes into consideration and actually deals with quite a number of related issues that either are not within IASB`s mandate or its priorities. This is the first reason why ISAR should be retained and adequately supported by the United Nations. Among ISAR's many initiatives are its work on accounting by small and medium- sized enterprises which it undertook before the IASB made a move in that direction. It is generally recognized that SMEs are the largest employers, by far, in virtually every economy, developing or developed. As such, sound reporting standards for that sector are definitely a necessity. A quick visit to the websites of the accounting institutes in developed countries shows that the vast majority of the enterprises operating there – in many cases over 90 percent of enterprises – fall within some definition of small or medium. The social challenge here is to assist SMEs to produce sound information which increases their survival rate. With better information, they can be better managed since they will know the underlying economic facts affecting their performance.

ISAR was in the forefront of environmental accounting initiatives. Although environmental protection is an extremely serious concern of mankind everywhere, the role accounting has to play here stems from the belief that `disclosure drives behavior`. The topic of `green accounting` was taken up rather early by ISAR – discussions started even before the Rio de Janeiro conference on environment protection in 1992. Corporate finance has developed a number of sophisticated financial coefficients to diagnose and understand issues about the financial health of a corporation. The question was what indicators could be produced that would shed light on the environmental performance of corporations? And this led to the development of eco-efficiency indicators, now amply discussed both in the corporate and in the academic worlds. ISAR experts partnered with environmentalists, economists, and people with other backgrounds to produce indicators capable of providing `meaningful information`.

What is the use of a wonderful Formula 1 winning car without a competent driver? What would be the use of robust international financial reporting standards and international standards of auditing without equally competent international accountants and auditors? Education is the key for the implementation of global accounting and auditing rules. At the urging of developing countries, ISAR took up the initiative to outline the process for preparing a GLOBAL ACCOUNTANT when others declined to accept the challenge. In the following section on Brazil's experience we will see how ISAR`s curriculum for a global accountant took form in real life.

Corporate social responsibility and non-financial reporting by corporations are areas where ISAR paid particular attention. Corporations worry primarily about profits and shareholder value. Now they are required to comply with issues that were off their radar screens such as environmental and social concerns including child labor, fair treatment of employees, healthy working environments, fair relations with governments and with tax authorities (tax planning is no longer synonymous with tax evasion and abusive transfer pricing). In the section on Brazil we will see where legislation was inspired by ISAR's CSR guidelines.

These are some of the issues where ISAR was ahead of the curve in studying and providing a forum to exchange views and experiences. These issues prove the case that ISAR should be maintained and upgraded as it is a genuine contributor to development of nations. ISAR should not be seen as an initiative restricted solely to looking at and looking after developing economies – most, if not all, these issues are challenges to developed economies as well.

C. Impact of ISAR on BRAZIL

Now I would like to provide a concrete testimony of how Brazil, as an important emerging economy, has been influenced by ISAR's guidelines. Back in the mid 1980s, for the first time since it was founded (1976) a fully qualified accountant was nominated to be a commissioner of the Brazilian Securities and Exchange Commission (*`Comissao de Valores Mobiliarios – CVM`).* Professor Eliseu Martins, PhD, one of the most respected professors and researchers in accounting in Brazil, was invited because the recently elected Federal Government realized that accounting would be a fundamental issue for the future of capital markets everywhere, especially in the developing countries of Latin America.

Professor Martins was surprised one morning with a letter from the office of the Chairman of the CVM, forwarded by the Ministry of Foreign Relations to the Finance Minister and from the latter to the CVM, inviting Brazil to be officially represented at ISAR's annual sessions in New York. As it was an invitation to participate in a group of intergovernmental experts on accounting and financial reporting, it was natural that had been forwarded to the highest ranking accountant in our Federal Government at that time. He did attend the early sessions and contributed significantly to ISAR's guidance by writing its conclusions on accounting during hyperinflation and participating in the initial expert group on environmental accounting. This was the beginning of the CVM's long representation of Brazil in the ISAR sessions.

A few years after, precisely in 1990, I was appointed Commissioner of the CVM, this time together with another fellow accountant. It was realized that the importance of accounting not only required that accountants be appointed Commissioners but also that one was not enough for the enormous tasks that this regulatory agency had in monitoring our capital market. In 1991 it was then my turn to officially represent Brazil at ISAR`s session in New York. I quickly realized the complexity of the challenge ISAR faced and faces, and decided the initiatives could only prosper if dissemination was widely spread among member States. Sending one representative to the annual sessions was simply insufficient to produce a significant impact at home from the guidance decided at the sessions.

In the following year, I was no longer with CVM but then Head of Banking Supervision at the Central Bank of Brazil. I helped the CVM chief accountant to organize a Brazilian DELEGATION to attend ISAR. To make a long story short, the Brazilian delegation in the last three sessions of ISAR (2007, 2006 and 2005) was made up of about 12 to 15 people under the coordination of the chief accountant of the CVM. The members of the delegation represent the following Brazilian entities--all with a legitimate interest in the work of ISAR:

- The Brazilian Association of Listed Companies (ABRASCA)
- The Association of Investment Professionals and Analysts of the Capital Market (APIMEC)
- The Central Bank of Brazil (BACEN)
- The National Bank for Economic and Social Development (BNDES, from Brazil)
- The Federal Council of Accounting (CFC)
- The Brazilian Committee of Accounting Pronouncements (domestic accounting standard setter CPC)
- The Brazilian Securities and Exchange Commission (CVM)
- The Foundation Institute for Research in Accounting, Actuarial Sciences and Finance (FIPECAFI, entity supporting the Department of Accounting and Controllership of the School of Economy, BA and Accounting of Universidade de Sao Paulo)
- The FUCAPE Business School based in the State of Espirito Santo, in Brazil
- The Brazilian Institute of Corporate Governance (IBGC)
- The Institute of Independent Auditors of Brazil (IBRACON)
- The largest Brazilian listed company – (international oil giant and multiple exchanges-listed company PETROBRAS).

I would like to give a few examples of how the ISAR guidelines have been used in Brazil.

All the proceedings of ISAR's sessions are disseminated by the members of the delegation among their constituents in the above mentioned entities. Just to give two examples of the practical and real implications stemming from ISAR guidance:

EDUCATION – The above mentioned FUCAPE Business School runs a number of educational and training programs in their geographic area. One such program is an undergraduate course in accounting, and about three years ago they adopted ISAR`s Global Accountant Curriculum to educate and graduate Brazilian accountants. They reported their experience – so far very successful – in one of ISAR`s last sessions.

CORPORATE SOCIAL RESPONSIBILITY – What corporations should report at the end of the business year has been a frequent subject of debate and academic research at the University of Sao Paulo. As in every single capitalist country in the world, it is unconceivable not to report net income. But – is that enough (together with the other basic financial statements)? Isn`t that turning the shareholder into the sole, privileged user of accounting information? Would it be possible to produce another statement that could be introduced, besides the traditional ones that could give relevant information to other stakeholders and be a result of the accounting process?

Research carried out at the University of Sao Paulo produced, as a result, a proposal to request corporations to voluntarily prepare and publish, with their annual accounts, a `Statement of Value Added`. It is something nicknamed the `GDP` of a corporation – where the value it added from operations came from for a given business year, and how it was distributed among shareholders, employees and the government.

Acceptance of the invitation to publish that statement was surprisingly high and kept increasing, and in December 2007, legislation was enacted both to promote the convergence of Brazil towards IFRS and to make it mandatory for corporations to publish the Value Added Statement every year.

D. The Future Work of ISAR

In my view, the enormous contribution that ISAR gave to developed and developing countries over its first 25 years is unquestionable. It is not realistic to look at that contribution only in terms of tangible results – it greatly contributed to a change in mindsets, to the enhancement of the perception of the relevance of accounting, and to the upgrading of the governments` and the private sector`s role in promoting good accounting. It helped developed economies to identify areas where improvement in their standards could take place. Private sector entities gained the opportunity to manage themselves more effectively. Governments gained insights to guide public policies, identify the problems: where they are, and how they should be resolved.

ISAR is an ideal partner for the IASB. As an intergovernmental body, ISAR includes official representatives from governments, the private sector and civil society from all the regions of the world to an extent that is not possible to accommodate at the IASB. On the other hand, IASB holds without a doubt a high level of expertise. Linking ISAR and the IASB would produce gains for all countries. The world of international standards is in desperate need of more education, training, guidance, and better translations. These are challenges that ISAR, the IASB and other international organizations together could meet.

ISAR could be instrumental in coordinating regional seminars or meetings around the world as it did for environmental accounting to assist in the implementation of international standards – be they for accounting, for auditing or for education.

ISAR could deepen its efforts in accounting for environmental matters, corporate social responsibility and corporate governance – not to replace or compete with other organizations dealing with these issues, but to partner with them and amplify the sound and effects of their work. The authors of the preceding chapters have made suggestions explicitly or implicitly for ISAR's future work (see box). I ask all ISAR experts to seriously consider and debate them.

Some are new issues that need to be put on the global agenda and others are old issues that need resolution. My hope is that the next 25 years of ISAR are as productive and useful as the last 25 years and that ISAR will remain ahead of the curve because of its unique composition, mandate and foresight.

Recommendations for Future Work

Subject	Recommendations
Strengthening the profession	Promote a global consensus on the guideline for preparing global accountants to reduce the costs of mutual recognition; organize regional training seminars for professional institutes to close the educational gap; strengthen educational infrastructure in Africa and other regions where needed; launch pilot projects with quality institutions to implement the revised model curriculum.
Corporate governance reporting	Develop a model format for CG reporting; improve the effectiveness of the audit committee; improve disclosure regarding the board of directors; research what the stakeholders consider "material" for CG reporting; work with other organizations for a global CG code.
Corporate responsibility reporting	the CR reporting process for external reporting and for management accounting, accounting for and reporting on climate change; accounting for extractive industries' environmental impacts; improve CR reporting by segment; harmonize CR indicators by better coordination with other CR organizations.
Accounting by SMEs	Analyze the forthcoming IFRS for SMEs and in the light of it revisit level 3; organize technical assistance in accounting based on Levels 2-3 SME guidance and undertake dissemination through SME support agencies.
IFRS implementation	Work with the IASB, the IASC Foundation and other entities to support convergence towards IFRS and effective implementation without 'adaptations'.

ANNEX

A. Authors and commentators

Baladi, Andre: Founding member of the International Corporate Governance Network which controls USD 15 trillion in assets; participated in ISAR's work on CSR and CG.

Bebbington, Jan: Professor at the Centre for Social and Environmental Accounting Research, St. Andrew's University, Scotland; participated in the work on environmental accounting.

Carvalho, Nelson: Chair of the Advisory Council of the IASB in London; Professor at the U. of Sao Paulo; ISAR expert from Brazil; has chaired several sessions; participated in practically all phases of the work.

De Reyna, Ray: former General Partner with Deloitte & Touche, LLP (USA);former Senior Interregional Advisor (1991-1996) and Head of the Accounting Section (1993-1995), UNCTAD.

Gathinji, Ndung'u: Chief Executive of Eastern Central and Southern African Federation of Accountants; ISAR expert from Kenya; participated in the work on the global qualification and curriculum. Chaired an ISAR session.

Geiger, Rainer: Professor of Law, former Deputy Director, Financial and Enterprise Affairs, OECD. Was in charge of the OECD accounting group until it was disbanded; attended the early ISAR sessions and wrote the Agreed Conclusions of the Group.

Gray, Rob: Director of the Centre for Social and Environmental Accounting Research at St. Andrew's University, Scotland; participated in the environmental work.

Hamdani, Khalil, former Director of the Division on Investment and Enterprise Development, UNCTAD.

Jarvis, Robin: Head of SME Affairs at ACCA; Professor of Accounting and Finance at Kingston University, he was active in ISAR and responsible for level 3 guidelines on accounting by SMEs; he is a member of IASB's SME Advisory Group and chairs IFAC's SME Financial Reporting Task Force; he is a member of EFRAG's supervisory board.

Kamp-Roelands, Nancy: Member of NIVAR (Institute of Registered Accountants) in the Netherlands; also a Senior Manager at Ernst & Young; wrote papers for ISAR on CSR and CG.

Kuszewski, Judy: Special advisor to SustainAbility Limited and formerly with CERES; participated in the work on CSR.

Lee, Paul: Corporate governance analyst, Hermes Focus Asset Management Ltd, London; participated in ISAR's work on CG and presented revised guidance to the Group.

Martin, Richard: Head of Financial Reporting at ACCA; participated in the work on accounting by SMEs. Chaired an ISAR session.

Moore, David: former Research Studies Director of the Canadian Institute of Chartered Accountants; has participated in virtually every area of ISAR's work; wrote many of the ISAR background papers pro bono; took the lead in developing ISAR's guidance on environmental accounting. Chaired an ISAR session.

Moustafa, Mohamed: Professor at California State Univesity, Emeritus. Resource person for the revision of ISAR's curriculum for professional accountants.

Rahman, Zubaidur: World Bank staff member; active in their ROSC reviews which include reviewing the adequacy of national accounting systems; a member of the ISAR team which launched accounting reform in the former Soviet Union; participated in accounting reform in other transition economies; wrote the ISAR paper on the role of accounting in the Asian financial crisis.

Ruffing, Lorraine: Former Head of UNCTAD's Enterprise and Development Branch.

Scheibe-Lange, Ingrid: representative of the ICFTU to ISAR from 1977. Was the institutional memory of the Group. Provided perspectives from the point of employees on information to be disclosed by TNCs and their subsidiaries.

Tjolsen, Asta: former ISAR representative from Norway; started the work on environmental accounting.

Van Hulle, Karel: Head of Insurance and Pensions, Financial Institutions, Economic Commission; he was Head of the Unit for Accounting, Auditing and Company Law (1992-2004) and participated in ISAR from 1984 onwards; a Professor at Louven University.

Walton, Peter: Professor at ESSEC, Paris and the Open University, UK; editor of the World Accounting Report; long-time advisor to ISAR; drafted the guidance on accounting for SMEs for level 2.

B. List of members of recent consultative groups

1. Environmental Accounting

David Moore (CICA); Roger Adams (ACCA); Nancy Bennett (UNEP), Robert Langford (ICAEW); Stephen Barg (International Institute for Sustainable Development); Matteo Bartolomee (FEEM); Jan Bebbington (CSEAR); Pascale Chassot, Philippe Spicher (Centre-Info Suisse); Ramon J De Reyna (former UNCTAD staff); Ira Feldman (GT Strategies & Solutions); Tom Gameson (Institute for Prospective Technological Studies); Dr. Heinrich Hugenschmidt (UBS); Mozzamal Hoque (World Bank); Mike Kelly (KPMG, United Kingdom); Andreas Knörzer (Bank Sarasin): Judy Kuszewski (SustainAbility); Eric Ohlund (Arthur Andersen AG); Johan Piet (FEE); Lugi Poli (EC), Deborah Vorhies (UNEP) and Alan Willis (Alan Willis & Associates).

2. Professional qualification and model curriculum

Ramon J De Reyna (former UNCTAD staff); Talal Abu-Ghazaleh (Arab Society of Certified Accountants); Warren Allen (IFAC); Mark Allison (Institute of Chartered Accountants of Scotland); Dr. Herbert Biener (German Accounting Standards Committee); Mark Boudreau (Certified General Accountants Association of Canada, CGA CANADA); Ron Bourque (CGA CANADA); Professor Nelson Carvalho (University of Sao Paolo); Grant Christensen (CGA CANADA); Anthony Dalessio (KPMG, United States of America); Aziz Dieye (Coopers & Lybrand, Senegal); Cecil Donovan (Deloitte & Touche, Dublin); John Gruner (IFAC); Dale Honeck (WTO); Professor Alicia Jaruga (Accounting Standards Board, Poland); Ravi Kathpalia (Group Chairperson); Milou Kelley (IFAC); Professor Prawit Ninsuvannakul (University of Chulalongkorn, Thailand); Luigi Poli (European Commission); Professor Jean-Claude Schied (Institut National des techniques et comptables, Paris); Professor Alfred Stetler (University of Lausanne); Claude Trolliet (WTO); Michael Walsh (ACCA); and Professor Peter Walton (University of Geneva).

3. Accounting by SMEs

Ashok Chandak (the Institute of Chartered Accountants of India); Chen Yugui (Ministry of Finance, People's Republic of China); Colin Fleming (International Accounting Standards Board); Eric Delesalle (Institut National des Techniques Economiques et Comptables de Conservatoire National des Arts et Métires); Aziz Dieye (PricewaterhouseCoopers, Senegal); Tihomir Domazet (Ministry of Finance, Croatia); Ndung'u Gathinji (Eastern, Central and Southern African Federation of Accountants, Kenya); Lyle Handfield (Certified General Accountants Association of Canada); David Harvey (The Association of Chartered Accountants, United Kingdom); John Hegarty (World Bank); Peter Johnston (IFAC); Robin Jarvis (ACCA), Owen N. Koimburi, (Kenya); Mikael Lindroos (European Commission), C.M. Lovatt (Deloitte & Touche, Malawi); Richard Martin (ACCA); David Moore (CICA); Mary Ncube, Zambia; Prawit

Ninsuvannakul (Chulalongkorn University, Thailand); Ricardo Rodil, Brazil; Prof. Alfred Stéttler (University of Lausanne); Samiuela Tukuafu (Asian Development Bank); John Vincent (Association of Accounting Technicians, United Kingdom), and Peter Walton (ESSEC Business School, France)

4. Corporate Governance Disclosure

Carlotta Amaduzzi, (Institutional Shareholder Services,United States); André Baladi, International Corporate Governance Network (ICGN); Ian Ball,(IFAC); John Barass, (CFA Institute); Igor Belikov, (Russian Institute of Directors); Robert Blanks, (Institute of Chartered Secretaries and Administrators, United Kingdom); Geoffrey Bowes, (The Boardroom Practice Ltd., New Zealand); Jacqueline Cook, (The Corporate Library, United States); David Devlin, (European Federation of Accountants); Ndung'u Gathinji, (Eastern, Central and Southern African Federation of Accountants); Frederic Gielen, (World Bank); Winston Griffin, (Proctor & Gamble, Switzerland); Ashok Haldia, (Institute of Chartered Accountants of India); Paul Lee, (Hermes Investment Management Ltd., United Kingdom); Paul Moxey, (ACCA); Matthias Mueller, (International Confederation of Free Trade Unions); Vijay Poonoosamy, (Commonwealth Association of Corporate Governance); Gregor Pozniak, (Federation of European Securities Exchanges); Paolo Santella, (European Commission); Saskia Slomp ,(European Federation of Accountants); Ivan Clark, (PricewaterhouseCoopers, Brazil); Lars Vind SØrensen, (European Commission); Hazem A. Yassin, (Capital Market Authority, Egypt); and Richard Frederick as resource person.

5. Corporate Social Responsibility

André Baladi, International Corporate Governance Network (ICGN); Justine Bentham, (KPMG); Helen Bloustein, (EPA, Victoria, Australia); Bernardo Calzadilla, (ISO); Rob Gray, (University of St. Andrew’s, Scotland); Paul Clements-Hunt, (UNEP Finance Initiative); Dwight Justice, (International Confederation of Free Trade Unions); Nancy Kamp-Roelands, (Ernst & Young, Netherlands); Alya Kayal, (Calvert Group Ltd.); Michael Kelly, (KPMG); Robert Langford, (Independent Consultant); Debora Leipziger, (Anders & Winst); Jianqiao Lu, (Ministry of Finance, People's Republic of China); Cornis van der Lugt, (UNEP); Julie McDowell, (Standard Life Investments); Mokhethi Moshoeshoe, (African Institute of Corporate Citizenship); Anthony Perret, (The Environment Council); Liz Umlas, (KLD Research & Analytics, Inc.); Michael Urminsky, (ILO); Ambreen Waheed, (Responsible Business Initiative); Hazen Yassin, (Capital Market Authority, Egypt); Santiago Zorzopulos, (Dubai Ethics Resource Center); Roger Adams, (ACCA); Mallen Baker, (Business in the Community); Igor Belikov, (Russian Institute of Directors); Heloisa Belotti Bedicks, (Instituto Brasileiro de Governanca Corporativa (IBGC); Paul Dembinski, (Observatoire de la Finance, Switzerland); Robert Garnett, IFAC); Ndung'u Gathinji, Eastern, Central and Southern African Federation of Accountants (ECSAFA); Richard Golding, (PricewaterhouseCoopers, Switzerland); Kathryn Gordon, (OECD); Rob Gray, (Centre for Social and Environmental Accounting Research); Dwight Justice, (International Confederation of Free Trade Unions); Nancy Kamp-Roelands, (Ernst & Young, Netherlands); Parveen Mahmud, (Palli Karma-Sahayak

Foundation (PKSF), Bangladesh; Julie McDowell, (Standard Life Investment), Abbas Ali Mirza, (Deloitte & Touche, United Arab Emirates); Jennifer Morris, (Hermes Pensions Management Ltd.); Mokheti Moshoesoe, (African Institute of Corporate Citizenship, South Africa); Amanda Pingree, (PricewaterhouseCoopers, Switzerland); Michael Urminsky, (ILO); Peter Utting, (United Nations Research Institute for Social Development); Lene Wendland, (Office of the High Commissioner on Human Rights).

C. List of topics covered in ISAR sessions (1982-2008)

- 25th session - Geneva 4 to 6 November 2008
  - IFRS implementation (country case studies)
  - Practical challenges and related considerations in implementing International Standards on Auditing (ISAs)
  - Accounting by SMEs
  - Corporate responsibility reporting
  - Corporate governance disclosure

- 24th session - Geneva 30 October to 1 November 2007
  - IFRS implementation (country case studies)
  - Corporate responsibility reporting
  - Corporate governance disclosure

- 23rd session - Geneva 10 to 12 October 2006
  - IFRS implementation (country case studies)
  - Corporate responsibility reporting
  - Corporate governance disclosure

- 22nd session - Geneva 21 to 23 November 2005
  - Practical implementation of IFRS
  - Corporate responsibility reporting
  - Corporate governance disclosure

- 21st session - Geneva 27 to 29 October 2004
  - Corporate responsibility reporting
  - Corporate governance disclosure
  - Revised ISAR model curriculum

- 20th session - Geneva 29 September to 1 October 2003
  - Case studies on transparency and disclosure on corporate governance
  - Disclosure of the impact of corporations on society
  - Revised ISAR model curriculum

- 19th session - Geneva 25-27 September 2002
  - Corporate governance
  - Accounting by small and medium-sized enterprises

- 18th session - Geneva: 10-12 September 2001
  - Accounting by small and medium-sized enterprises
  - Corporate Governance - (including a workshop on 13-14 September 2001)

- 17th session - Geneva: 3-5 July 2000
  - Accounting by small and medium-sized enterprises
  - Integrating financial and environmental performance indicators
  - Roundtable on Corporate Governance (hosted by the University of Geneva)

- 16th session - Geneva: 17-19 February 1999
  - Guidelines for the Qualification of Professional Accountants
  - Model Curriculum for the Professional Education of Professional Accountants
  - Global Certification and Accreditation Systems
  - Role of Accounting Disclosure in the East Asian Financial Crisis: Lessons Learned
  - Self-assessment of the functioning of ISAR

- 15th session - Geneva : 11-13 February 1998
  - Examination of national standards and regulations for environmental financial accounting
  - Identification of key environmental performance indicators and their relation to financial performance

- 14th Session - Geneva : 1-5 July 1996
  - Review of significant current developments at the global and regional levels in the field of accounting and reporting by transnational corporations.
  - Accounting and reporting by commercial banks.
  - Accounting for government concessions and other benefits.
  - Compliance with international accounting standards.
  - Reducing barriers to trade in accounting services and the development of a benchmark for professional qualifications.
  - Regulation of the accountancy profession in developing countries and countries in transition.
  - Current developments in environmental accounting.

- 13th Session - Geneva : 13-17 March 1995
  - Incentives and disincentives for the adoption of sustainable development by transnational corporations
  - The integration of environmental performance indicators with financial information by transnational corporations.
  - Review of national environmental accounting laws and regulations.
  - Disclosure by transnational corporations of environmental matters at the national level.
  - A practical approach to integrated environmental accounting: AGIP petroli case study.
  - The European Community's eco-management and audit scheme.
  - Sustainable forestry operations and accountancy.

- 12th Session - Geneva : 7-15 March 1994
  - Review of important current developments in the field of accounting and reporting by transnational corporations: a global overview.
  - Review of important current developments in the field of accounting and reporting by transnational corporations: a national overview.
  - Environmental disclosures: international survey of corporate reporting practices
  - Accounting for new financial instruments.
  - Accounting for government grants.

    - Accounting for leases.

- 11th Session - Geneva : 4-12 March 1993
    - Global overview of the state of accounting and auditing education and training
    - Responsibilities of the accounting profession and direction of accounting and auditing education.
    - Regional overview of accounting and auditing education and training in Africa, in Asia and Latin America, in West Europe and North America, in Eastern Europe and the Commonwealth of Independent states.
    - Profession accounting education: some requirements for the year 2000 and beyond.
    - Recent developments affecting the European accounting profession.
    - The Education of European Accountants and challenges of the international economy.

- 10th Session - New-York : 5-15 March 1992
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a global overview.
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a national overview.
    - Environmental disclosures: international survey of corporate reporting practices
    - The international conference on accounting development in francophone Africa.
    - Review of accountancy education and training programmes in Central and Eastern Europe.
    - Accounting problems arising during privatisation : a global overview
    - Accounting problems arising during privatisation : a national overview (Czechoslovakia, France, Germany, Hungary, Mexico, Poland, United Kingdom of Great Britain and Northern Ireland).

- 9th Session - New-York : 5-15 March 1991
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a global overview.
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a national overview.
    - Accounting for and by joint ventures.
    - Accounting for environmental protection measures.
    - Accounting and reporting during and after the transition from public to private enterprises: an overview.
    - The organisation of the accountancy profession and the role and qualification of auditors.
    - Description of the data bases available in the comprehensive information system.

- 8th Session - New-York : 13-23 March 1990
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a global overview.
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a national overview.

- International survey of financial statements published by transnational corporations and other enterprises.
- Accounting for and by joint ventures.
- Accounting for pension commitments.
- Accounting for intangible assets.
- Information disclosure relating to environmental measures.
- Ways and means of improving education, research and practical training in the field of accounting in member States : result of the survey on Africa.
- Further steps to be taken in relation to the development of the comprehensive information system.

- 7th Session - New-York : 7-17 March 1989
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a global overview.
    - Review of important current developments in the field of accounting and reporting by transnational corporations: a national overview.
    - Accounting for inflation and changing prices and market and historical values of assets and liabilities.
    - Information disclosure requirements concerning the annual of the board of directors.
    - Objectives and concepts underlying financial statements.
    - Ways and means of improving education, research and practical training in the field of accounting in member States: special case of Africa.
    - Data on foreign direct investment.

- 6th Session - New-York : 7-17 March 1988
    - Review of important current developments in the field of accounting and reporting by transnational corporations.
    - Consolidation procedures.
    - Segmentation of aggregated data.
    - Numerical data on the largest service transnational corporations.

- 5th Session - New-York : 2-13 March 1987
    - Review of important current developments in the field of accounting and reporting by transnational corporations.
    - Accounting and reporting for business combinations.
    - Revenue recognition and accounting for non-operating gains and losses.
    - Valuation of inventories.
    - Numerical data on the largest transnational corporations.

- 4th Session - New-York : 3-14 March 1986
    - Review of important current developments in the field of accounting and reporting by transnational corporations.
    - Accounting and reporting for investments.
    - Information disclosure concerning related party transactions and transfer of technology.
    - Accounting for property, plant and equipment and depreciation accounting.
    - Auditor's association with non-financial information
    - Problems identified in the course of responding to requests for information on individual transnational corporations

- 3rd Session - New-York : 11-22 March 1985
  - Review of important current developments in the field of accounting and reporting by transnational corporations.
  - Legislative backing and enforcement, prudence and reserve accounting.
  - Accounting and reporting for transactions denominated in foreign currencies.
  - Accounting and reporting for research and development activities.
  - Ways and means of developing education, research and practical training in the field of accounting in member States.

- 2nd Session - New-York : 12-23 March 1984
  - Work of standard-setting bodies, governmental and non-governmental, international, regional and national, in home and host countries alike.
  - Accounting and reporting policies and practices of transnational corporations.
  - Issues of accounting and reporting identified in the course of developing the comprehensive information system on the activities of transnational corporations.
  - Review of specific accounting and reporting issues.

- 1st Session - New-York : 22 February - 4 March 1983
  - Review of important current developments in corporate accounting and reporting.
  - Efforts to regulate and standardize corporate accounting and reporting in 20 selected countries.
  - Financial statements to be accurate and honest; to give a true and fair view.
  - Admissibility of equity method.
  - Definition of contingent assets and liabilities.
  - Movement in fixed assets.

D. List of ISAR publications

ISAR publications are available for free download at **www.unctad.org/isar**.

International Accounting and Reporting Issues:

2007 Review (UNCTAD/ITE/TEB/2007/5)
2006 Review (UNCTAD/ITE/TEB/2007/2)
2005 Review (UNCTAD/ITE/TEB/2005/7)
2004 Review (UNCTAD/ITE/TEB/2005/2)
2003 Review (UNCTAD/ITE/TEB/2003/9)
2002 Review (UNCTAD/ITE/TEB/2003/4)
2001 Review (UNCTAD/ITE/TEB/14), 2003

Financial Accounting and Reporting:

Practical implementation of international financial reporting standards: Lessons learned
(UNCTAD/DIAE/ED/2008/1)

Accounting and Financial Reporting Guidelines for Small and Medium-Sized Enterprises (SMEGA) - Level 3 Guidance
(UNCTAD/ITE/TEB/2003/6)

Accounting and Financial Reporting Guidelines for Small and Medium-Sized Enterprises (SMEGA) - Level 2 Guidance
(UNCTAD/ITE/TEB/2003/5)

Financial Disclosure by Banks: proceedings of a forum
(UNCTAD/ITE/EDS/3), 1998

Responsibilities and Liabilities of Accountants and Auditors: proceedings of a forum
(UNCTAD/DTCI/24), 1996

Conclusions on Accounting and Reporting by Transnational Corporations: The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
(UNCTAD/DTCI/1), 1994

Accounting for Sustainable Forestry Management: A case study
(UNCTAD/DTCI/4), 1994

Accounting, Valuation and privatization
(ST/CTC/157), 1993

Accounting for East-West Joint Ventures
(ST/CTC/97), 1992

Objectives and Concepts Underlying Financial Statements: the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
(ST/CTC/97), 1990

Environmental, Social and Governance Disclosure:
Guidance on Corporate Responsibility Indicators in Annual Reports
(UNCTAD/ITE/TEB/2007/6)

Guidance on Good Practices in Corporate Governance Disclosure
(UNCTAD/ITE/TEB/2006/3)

Disclosure of the Impact of Corporations on Society: Current Trends and Issues
(UNCTAD/ITE/TEB/2003/7)

A Manual for the Preparers and Users of Eco-Efficiency Indicators
(UNCTAD/ITE/IPC/2003/7)

Selected Issues on Corporate Governance: Regional and Country Experiences
(UNCTAD/ITE/TEB/2003/3)

Accounting and Financial Reporting for Environmental Costs and Liabilities
(UNCTAD/ITE/EDS/4), 2002