

**UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva**

GUIDANCE MANUAL

**ACCOUNTING AND FINANCIAL REPORTING
FOR ENVIRONMENTAL COSTS
AND LIABILITIES**



**UNITED NATIONS
Geneva, 2002**

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

GUIDANCE MANUAL

ACCOUNTING AND FINANCIAL REPORTING FOR ENVIRONMENTAL COSTS AND LIABILITIES



Geneva 2002

ACCOUNTING AND FINANCIAL REPORTING FOR ENVIRONMENTAL COSTS AND LIABILITIES

Workshop Manual

prepared for the United Nations Conference on Trade and Development (UNCTAD) by:

*Mr Roger Adams, Dr Andrea Coulson, Mr Kaspar Mueller,
Dr Andreas Sturm and Mr Constantine Bartel*

*under the guidance of an international review group
and technical support of:*

*UNCTAD/ISAR: Intergovernmental Working Group of Experts on International
Standards of Accounting and Reporting (ISAR)*

CICA: Canadian Institute of Chartered Accountants

ACCA: Association of Chartered Certified Accountants.

Ellipson Ltd.

The World Bank.

Accounting and Financial Reporting for Environmental Costs and Liabilities:

Workshop Manual

Third edition, revised by Dr Andrea Coulson, October 2002 (first published 1998)

Published by United Nations Conference on Trade and Development (UNCTAD), Division on Investment, Technology and Enterprise Development, Enterprise Development Branch, Palais des Nations, CH - 1211 Geneva, Switzerland. Tel: +41 22 917.5875 www.unctad.org/dite

ACKNOWLEDGEMENTS

UNCTAD would like to thank the authors for the preparation of the manual. Mr Roger Adams, Head of Technical Services and Research, Association of Chartered Certified Accountants, for Environmental Reporting; Dr Andrea Coulson, University of Strathclyde for Environmental Costs and Liabilities; Mr David Moore of the Canadian Institute of Chartered Accountants (CICA) for the background paper on which the environmental accounting section is based; Mr Kaspar Mueller and Dr Andreas Sturm of Ellipson Ltd for environmental performance indicators and Mr Constantine Bartel for Section 1 and the Resource Section.

The review group gave invaluable advice. Members include Ms Lorraine Ruffing, Chief, Enterprise Development Branch, UNCTAD; Mr David Moore, Research Studies Director, CICA; Mr Talal Abu-Ghazaleh, President of ASCA; Professor L.G.Nelson Carvalho, FIPECAFI; Ms Linda Descano, Solomon Smith Barney Inc.; Ms Isaura Maria Frondizi, BNDES; Mr Richard Cooper, Lloyds/TSB; Prawit Ninsuvannaku, Chulalankorn University, Thailand; Mr Fred Driehuis, Moret Ernst & Young; Mr Randolph Anderson, World Bank, Matteo Bartolomeo, Fondazione Eni Enrico Mattei; Mr Geoff Lane, PricewaterhouseCoopers; Mr Zubaidur Rahman, Millennium Consulting and Ms Deborah Vorhies, International Finance Corporation.

© United Nations Conference on Trade and Development

ISBN 1 85908 335 8

CONTENTS

1. INTRODUCTION TO GUIDANCE MANUAL ACCOUNTING AND FINANCIAL REPORTING FOR ENVIRONMENTAL COSTS AND LIABILITIES.....	5
Introduction	5
Objective of the Manual.....	5
Scope of the Manual	6
What It Is – What It Is Not.....	6
Technical updates.....	6
How to use the manual	7
Layout of the manual.....	8
Potential modifications to address regional and sectoral issues.....	9
Designing a workshop based on the manual.....	10
The Importance of Environmental Accounting and Reporting	11
History of ISAR.....	12
The Scope of ISAR Recommendations	13
The Need for Environmental Accounting and Reporting	13
2. ENVIRONMENTAL ACCOUNTING, LIABILITIES AND COSTS IN FINANCIAL STATEMENTS.....	15
The Need to Account for Environmental Costs and Liabilities.....	16
Recognition of Environmental Costs	18
Recovery and Impairment	22
Recognition of Environmental Liabilities	23
Long-Lived Assets	25
Recognition of Recoveries	28
Measurement of Environmental Liabilities.....	29
Disclosure	33
Verification.....	38
3. ENVIRONMENTAL REPORTING.....	39
What is Environmental Reporting?	39
Corporate Governance, Accountability and Environmental Reporting	40
Historical Development of Environmental Reporting	40
Public Sector or Private Sector?.....	40
The Growth in Corporate Environmental Reporting	40
Key Measurement and Environmental Reporting Drivers.....	42
The Costs and Benefits of Environmental Reporting	42
Different Approaches to Environmental Reporting.....	43
What is Normally Found in an Environmental Report?	44
Who are the Customers for Environmental Reporting?	47
Tailoring Environmental Reports to User Needs.....	48
Verification Related Issues.....	50
Conclusion 1: Getting Started	53
Conclusion 2: Other Issues	54
4. STANDARDISED ENVIRONMENTAL PERFORMANCE INDICATORS	55
Introduction	55
Performance Indicators in General.....	56
Need for EPIs Measuring Eco-efficiency.....	58
Relevance of EPIs to Financial Value: The Link between Shareholder Value and Environmental Performance.....	59
Current Practice	68
Other Initiatives to Develop EPIs	69
Conclusions	73
BACKGROUND MATERIAL	74
Contents of the Resources Section:	74
APPENDIX 1: GLOSSARY OF TERMS	75

APPENDIX 2: PUBLICATIONS	78
APPENDIX 3: WEBSITES ON ACCOUNTING	83
APPENDIX 4: REVIEW BODY FOR ENVIRONMENTAL ACCOUNTING.....	88
WORKSHOP MANUAL	88
APPENDIX 5: BIOGRAPHIES OF TRAINERS DELIVERING THE WORKSHOP MATERIAL	90
APPENDIX 6: Demonstrating the links between financial accountability, environmental accountability and sustainability reporting: an overview	92