GENERAL OVERVIEW ON THE ENVIRONMENTAL REPORTING

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Abstract:
Environmental financial accounting deals with accounting for and reporting on environmental transactions and events that affect, or are likely to affect, the financial position of an enterprise.
The workpaper is based on accounting information and reporting of environmental costs arising from transactions and events that affect, or will likely affect the financial position and results of an enterprise and, as such, should be reported in an enterprise's financial statements.

Key words: *environmental financial accounting, environmental financial statements, corporate reporting*

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Introduction

Accounting serves several functions in an enterprise. One, financial accounting, is a score keeping and reporting tool; a standardised means for compiling and communicating financial information to external audiences. Another, management accounting, is supplying information that helps managers to plan and control enterprise activities, and to evaluate performance of an enterprise, both profitability performance and environmental performance. This includes complete systems for identifying, monitoring, and reporting corporate environmental impacts, and for integrating those impacts into corporate decisions on product costing, product pricing, capital budgeting, product design, and performance evaluation.

To serve such functions, an audience must be kept clearly in view. Society has entrusted the management of a large portion of its wealth to corporate management. As a result, corporation executives become responsible to numerous internal and external stakeholders.

Owners of an enterprise are the immediate audience. Owners' interest is in the status of assets and the performance of an enterprise. Owners seek to protect themselves against environmental liabilities.

Expanding owners' interest into meeting legal environmental obligations brings an extended audience: consumers, competition, courts/legal system, employees, financial institutions, general public, government, interest groups, media, scientific community, and suppliers/ channels. This extended audience has a varied appetite for environmental reporting of enterprise activities (Freeman, 1984).

1. The Need for Environmental Accounting Reporting

There are many reasons why environmental issues need to be integrated into corporate accounting, such as:

- enterprise accounts should reflect firms' attitudes towards the environment and the impact of environmental expenditures, risks and liabilities upon the financial position of an enterprise;
- investors need information on environmental performance and expenditures to make investment decisions;
- environmental issues are management issues, managers need to identify and allocate environmental costs so that products are correctly priced and investment decisions are based on true costs and benefits;
- enterprises may be able to exploit a competitive advantage with customers if they are able to show that goods and services are environmentally preferable.

Environmental accounting is a key to sustainable development.

Most corporate leaders agree that a main objective for the economy is sustainable development. Sustainability requires companies to strive for eco-efficiency, but they can only measure that by producing accurate information an both environmental performance.

2. Environmental Reporting

Environmental reporting is the term now commonly used to describe the disclosure by an entity of environmentally related data, audited or not, regarding environmental risks, environmental impacts, policies, strategies, targets, costs, liabilities or environmental performance to those who have an interest in such information as an aid to enabling their relationship with the reporting entity via either:

- the annual report and accounts package
- a stand-alone corporate environmental performance report
- a site-centred environmental sataement
- some other medium (e.g. staff newsletter, video, internet site).

The Environmental Task Force of the European Federation of Accountants defines the objective of external environmental reporting in a similar way: "the provision of information about the environmental impact and operational performance of an entity that is useful to relevant stakeholders in assessing their relationship with the reporting entity".

Note the similarity of both definitions to the objectives of financial reporting as explained by the International Accounting Standards Committee (1995): "the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decision".

For the purposes of environmental reporting it is customary to drop the emphasis on the needs of users to make economic decisions.

3. The costs and Benefits of Environmental Reporting

The costs of reporting are mostly direct	***The costs of not reporting are mostly indirect***
- installing the appropriate environmental management systems	- poor environmental profile vis a vis competitors
- employing specialist staff / internal auditors	- potential loss of markets/investors
- appointing external veridiers	- loss / foregoing of other benefits
- publication/distribution costs / web site design costs	
- there is also a potential reporting risk cost	

Environmental reporting:
- provides strong focal point for internal environmental management system development ;
- enhances employee;
- includes the setting and publishing of performance standards which drives continuous improvement;
- establishes environmental issues as a key policy / strategy element;
- enables companies to re-assure investors / lenders as to environmental risk and corporate environmental engagement;
- enables good environmental performers to differentiate themselves from the also-rans;
- may minimise risk of regulatory intervention;
- may create local community opportunities;
- may provide quality public relations / profiling opportunities;
- supports the audit / reporting culture which will make a company more receptive to new developments- e.g. social and ethical reporting.

4. Environmental Financial Statements

In 2008, KPMG publised a study regarding corporate responsibility. Corporate responsibility reporting in industrialized countries has clearly entered the mainstream. They observed an increasing professionalism in the form of new global reporting standards, standards that can be used to provide assurance on corporate responsibility reports. This survey analyzes trends in corporate responsibility reporting of the world's largest corporations, including the top 250 companies of the Fortune 250 (Global 250) and top 100 companies in 22 countries (National 100). With its vast coverage of 2200 companies the survey provides a truly global picture of reporting trends over the last ten years. In 2008, 80 percent of G250 and 45 percent of N100 companies issued separate corporate responsibility reports, compared with 52 percent and 33 percent, respectively , in 2005. If we incude annual financial reports with corporate responsibility information, these percentages are even higher: 92 percent(G250) and 59 percent (N100).

Some enterprises in their environmental financial statements publised environmental costs, e.g. Baxter SUA. Baxter's Environment, Health and Safety (EHS) function pioneered its Environmental Financial Statement (EFS) to demonstrate the value of the company's proactive global environmental management program to senior leadership and other stakeholders. Baxter modified its health and safety computer-based information management system in the early 1990s to also track certain environmental data, such as waste generation and energy and water usage. At that time, Baxter used separate systems to track packaging information and savings from packaging-reduction projects. Baxter's EHS organization first prepared its environmental financial statements (EFS) in 1994 (for 1993 data) and presented it in Baxter's 1993 Environmental Report. Since then the EFS has illustrated the value of Baxter's proactive environmental program. For the past decade, on average the company has received a return of approximately three dollars for every dollar invested in its environmental initiatives.

Environmental income, savings and cost avoidance totaled $11.9 million for initiatives completed in 2008, or 70 percent of the cost of Baxter's basic environmental program. This amount increased from $7.1 million in 2007 due to additional energy savings, improved non-hazardous and regulated waste management practices, and additional recycling revenue.

Total environmental income, savings and cost avoidance realized in 2008 from environmental initiatives implemented during the prior six years, including 2008, totaled $91.9 million.

Baxter 2008 Environmental Financial Statement

ENVIRONMENTAL COSTS (dollars in millions)	*2008*	*2007*	*2006*	*2005*
BASIC PROGRAM CORPORATE ENVIRONMENTAL – GENERAL AND SHARED BUSINESS UNIT COSTS	1,9	1,6	1,4	1,5
AUDITOR AND ATTORNEY FEES	0,3	0,4	0,4	0,4
ENERGY PROFESSIONALS AND ENERGY REDUCTION PROGRAMS	1,2	1,1	1,1	1,0
CORPORATE ENVIRONMENTAL – INFORMATION TECHNOLOGY	0,4	0,3	0,3	0,3
BUSINESS UNIT/REGIONAL/FACILITY ENVIRONMENTAL PROFESSIONALS AND PROGRAMS	7,8	7,7	7,4	7,0
POLLUTION CONTROLS – OPERATION AND MAINTENANCE	3,0	3,1	3,2	2,8
POLLUTION CONTROLS – DEPRECIATION	2,4	0,9	0,8	0,7
BASIC PROGRAM TOTAL	16,9	15,1	14,6	13,6
REMEDIATION, WASTE AND OTHER RESPONSE				
ATTORNEY FEES FOR CLEANUP CLAIMS AND NOTICES OF VIOLATION	0,1	0,1	0,1	0,1
SETTLEMENTS OF GOVERNMENT CLAIMS	0,0	0,0	0,0	0,0
WASTE DISPOSAL	7,6	8,2	6,5	6,3
CARBON OFFSETS	0,2	0,1	0,0	0,0
ENVIRONMENTAL FEES FOR PACKAGING	0,9	0,9	0,9	1,1
ENVIRONMENTAL FEES FOR ELECTRONIC GOODS AND BATTERIES	0,1	0,1	0,1	0,0
REMEDIATION/CLEANUP – ON-SITE	0,2	0,5	0,1	0,1
REMEDIATION/CLEANUP – OFF-SITE	0,1	0,0	0,3	0,0
REMEDIATION, WASTE AND OTHER RESPONSE TOTAL	9,1	9,9	8,0	7,6
TOTAL ENVIRONMENTAL COSTS	26,0	25,0	22,6	21,2
ENVIRONMENTAL INCOME, SAVINGS **AND COST AVOIDANCE** **FROM INITIATIVES IN STATED YEAR** REGULATED WASTE DISPOSAL	(0,1)	(0,7)	0,1	0,1
REGULATED MATERIALS	(1,3)	(2,8)	0,5	0,5
NON-HAZARDOUS WASTE DISPOSAL	0,7	0,0	(0,1)	0,2
NON-HAZARDOUS MATERIALS	1,7	1,5	(2,0)	5,0
RECYCLING (INCOME)	5,1	4,3	4,3	3,9
ENERGY CONSERVATION	5,1	4,2	2,3	7,3
WATER CONSERVATION	0,7	0,6	0,5	0,0
FROM INITIATIVES IN STATED YEAR TOTAL	11,9	7,1	5,6	17,0
AS A PERCENTAGE OF BASIC PROGRAM COSTS	70%	47%	38%	125%
COST AVOIDANCE FROM INITIATIVES STARTED IN THE SIX YEARS PRIOR TO AND REALIZED IN STATED YEAR	80,0	76,4	82,1	75,6
TOTAL ENVIRONMENTAL INCOME, SAVINGS **AND COST AVOIDANCE IN STATED YEAR**	91,9	83,5	87,7	92,6

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