INTERNATIONAL GUIDELINES ON ENVIRONMENTAL MANAGEMENT ACCOUNTING (EMA)
IFAC Exposure Draft

Comments from ACCA
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EXECUTIVE SUMMARY

ACCA welcomes the IFAC EMA exposure draft (ED) because it raises awareness of EMA (environmental management accounting) issues. The final IFAC paper has the potential to play a significant contribution to the process of bringing together the best information available globally on EMA in order to minimise confusion, increase understanding and thereby promote the take-up of EMA practices.

However, the ED is heavily focused on the costs to business, and lacks any real coverage or examples of the benefits and savings EMA can bring. If the aim of the document is to encourage greater use of EMA, then currently it (and in particular the foreword and executive summary) presents no obvious positive reasons for using the EMA methodology: ACCA recommends that this imbalance be addressed in the next draft.

ACCA’s response to the IFAC EMA ED takes the following structure:

- Comments on the document, as a totality
- Comments on the Foreword
- Comments on the Executive Summary
- Comments on chapters 1-5
- Comments on appendices A & B
- Comments on other issues, such as grammar and style

In addition to the EMA work currently undertaken, ACCA would encourage IFAC to look in greater detail at related accounting work, such as full cost accounting, natural resource accounting and other related topics/issues, and provide similar international guidance, providing real engagement with business strategy and opportunities rather than focusing on just identifying and reducing costs. It would be essential that such treatment of sustainability did not, however, underestimate and ignore the difficulties that sustainable development raises for the corporation.

For this additional, broader work separate documents would be appropriate: we would recommend developing a suite of complementary documents which would ensure that the relationships between subjects are clear, rather than trying to put everything in one document.
COMMENTS ON THE DOCUMENT, AS A TOTALITY

As the ED currently stands, ACCA feels the paper is closer to being ‘guidance’ than ‘guidelines’. The ways in which users/readers are supposed to implement the final paper and use it in their day-to-day work should be made clear. The positioning of the Guidelines therefore needs to be spelt out more explicitly in order not to appear to claim more for them than can be reasonably justified. At present, the ED is in effect a combination of two quite distinct elements:

- in chapters 1 and 2, a general review of the potential for EMA, the various forms that this can take and how it might add value
- in chapter 4, the exposition of one particular method, which is also supported by part of the content of chapter 3, where a typology of physical quantities is set out which aligns with the typology of monetary information that chapter 4 expounds

The ED does not attempt to explain exactly how the outputs from applying this particular method should be used to inform management decisions, and none of the case studies in chapter 5 incontrovertibly demonstrates that the improvements in companies’ practices described are attributable to the outputs from applying this method. This need not be a problem so long as the final paper makes it clear that this method is being described only as one possible example of a system which aims to address part of the challenge of implementing EMA.

The ED also tends to assume, by default, that EMA’s potential scope is restricted to those areas that are reflected in most practice to date (eg the chapter 4 method), with the emphasis on traditional applications in manufacturing industry. In particular, this omits transport, a very significant source of adverse environmental impacts in most countries (particularly transport by road). This need not be a problem provided it is made clear that in this respect the IFAC paper reflects most EMA practice to date, including the situations in which the chapter 4 method has been applied; but recognising this need not be an inherent limitation in EMA in the future.
The introductory section needs to provide more contextual information to explain where EMA sits among the family of emerging and traditional accounting techniques (see Figure 1 as a suggested approach). This wider view would allow accountants new to this field to appreciate how EMA can and should be used in relation to other accounting methods. This would also help improve the overall completeness of the document, as accounting techniques currently excluded (eg full cost accounting and natural resource accounting) would be highlighted. This may also lead IFAC into publishing guidance on each of the areas mentioned in the contextual section.

Figure 1: A contextual overview of where EMA sits in the family of emerging and traditional accounting techniques.*

* Please note that this diagram is an oversimplification - each of the techniques above, expressed as separate segments, have overlaps and linkages between them, and, indeed, are not mutually exclusive.
COMMENTS ON THE FOREWORD (pp. 5-6)

Given the size constraints of the document, ACCA feels the ED has broadly met its objective to ‘bring together some of the best existing information on EMA and to update it and add to it as necessary’. However, the ED is generally factory-process-based: it could be improved by incorporating a more strategic emphasis. The ED’s focus on manufacturing industry should be explained and clear reference made to other areas where EMA is or could be applied.

COMMENTS ON THE EXECUTIVE SUMMARY (pp. 7-9)

ACCA generally agrees with the overall format of the paper - although it may be better, bearing in mind the intended audience, to swap chapters 3 and 4 around so that the monetary issues are addressed before the physical issues, which will be new to many accountants. The paper is also somewhat unbalanced, with chapter 4 (16 pages) being much longer than the first three chapters (eight, six and five pages respectively).

The chapter 2 summary on ‘Why EMA’ should make explicit the limited scope of EMA - and there should be more emphasis on this point in chapter 2 itself (to quote the EMARIC website: ‘EMA focuses on costs internal to the company; EMA does not include external costs to individuals, society, or the environment for which a company is not legally held responsible’). The fact that external political pressure may lead to more external costs being internalised is a very valid but separate and underplayed point.

An explicit acknowledgement - in keeping with the public-interest reference on p. 2 of the document - of the need for more internalisation of external costs would be welcome. This is particularly the case where the effect of regulation (whether direct or through market-based controls) is to raise costs for business or lead to criticism regarding anti-competitiveness caused by over-regulation. Such criticism often depends on higher costs being imposed within a particular jurisdiction.

The chapter 4 summary could make it clearer that the cost categories and terminology are only suggestions and that contingent factors for individual
sites/organisations may lead to variations. An explanation of the rationale and/or source of the categories used would be interesting.

COMMENTS ON CHAPTER 1: INTRODUCTION (pp. 10-18)

Overall, ACCA agrees with the overall format of the chapter: one section flows logically on to the next.

On p. 11, immediately under the list of bullets, the words ‘many … forward-looking’ appear. ACCA suggests that more is required here to explain the significance of this. In the following sentence, ACCA suggests that the word ‘generally’ be inserted between ‘are’ and ‘not’, as in a few instances (admittedly only a few) there can be legislation covering management accounting (eg the obligation on UK local government bodies to produce budgets).

The general definitions provided for management accounting (MA) and financial accounting (FA) could be improved. The distinctive feature of MA as distinct from FA (or financial reporting) is that the recipients of MA information are managers internal to the organisation - the definitions provided on p. 10 and p. 13 (in Table 1) should state this explicitly. The ED also confuses this distinction by indicating that the terms can refer not only to the outputs from accounting processes within organisations and their intended recipients, but also to those processes by which accounting information is collected and collated: in particular the statement on p. 10 that bookkeeping is a specifically FA activity, whereas it is more correctly seen as a data collection/collation process that can generate information for both external and internal recipients.

For FA, given the intended primary audience (ie accountants), it may be unnecessary to provide such a detailed description of FA. For MA, the definition is quite lengthy and slightly unclear - particularly for any reader who is not an accountant.

ACCA believes that all significant environmental accounting concepts have been included. The lack of standardisation in terminology is also mentioned with respect to full cost accounting and total cost assessment.
The chapter could improve on its clarity of presentation of the information. A glossary of terms (cross-referenced to sections of the document) would be helpful to users - particularly non-accountants, and the addition of some form of flow diagram to provide a quick reference summary guide would be useful both to show the different scopes of terms used and to break up the text heavy pages.

It would be useful and relevant for the table on p. 13 to include real/case examples to accompany and explain more fully the information provided, and to add internal costs/benefits to make it more complete.

As a member of the UNSD EMA group, we agree with the definition of EMA provided on p. 14.

ACCA recommends that a summary flow diagram should be provided to demonstrate - simply and quickly - EMA and its physical and monetary strands (see, for example, Fig 2, p. 98 in the paper ‘Towards a comprehensive framework for EMA – links between business actors and EMA tools’ by Roger L. Burritt, Tobias Hahn and Stefan Schaltegger - reproduced from other work by the same authors in the IFAC publication PAIB Articles of Merit 2003).

IFAC should note that externalities are mentioned on p. 15, although not until p. 17 is it made explicit that these are matters that normally lie outside the concern of EMA (although please note that there is no intrinsic reason why external costs cannot be part of EMA, merely that developments in this area have been slow to date and the method as shown in chapter 4 follows the more conventional approach). Externalities arise again on p. 18 even though p. 17 states that they will not be discussed further. This could lead to confusion - unless these issues are made much clearer and given more prominence, earlier in the document.
COMMENTS ON CHAPTER 2: WHY EMA? (PP. 18-23)

In its introduction, chapter 2 emphasises recent pressures that have focused awareness on environmental issues and EMA. The reasons listed are relevant, although ACCA feels the list could be improved by including the financial efficiency benefits: generally, the business or bottom-line benefits should be made clear, not least to attract the attention of all professions.

To accompany the explanations of each reason provided, it could be useful to include some explicit examples of typical generic savings to be made from EMA. This is very much the tone of the UK Envirowise guidance, which was prepared with assistance from ACCA and other UK accountancy bodies - and it would certainly help to engage accountants (readers) from the start.

The first point under ‘Increasing pressure from stakeholders interested in environmental issues’ (p. 19) refers to the RoHS Directive. This does not appear to ACCA to be a direct stakeholder pressure.

The ED would be strengthened by referring, where relevant, to established techniques of mainstream management accounting that EMA adapts or uses in the specific area of environmental management. The absence of any explicit reference to Activity Based Costing is surprising - even though the general issue of environmental costs being aggregated in overhead and not being allocated according to causation is addressed on pp. 20-1.

The references to ‘stocks’ (p. 21 and possibly elsewhere too) - should be changed. ACCA suggests using ‘inventory’ rather than ‘stock’ since this is a more internationally recognised term, whereas ‘stock’ is ambiguous.

ACCA recommends that the ‘Uses and benefits of EMA’ section (p. 22) should appear earlier in the ED, as it provides contextual and other important information more appropriate for the beginning of a document. It would be useful for the accompanying table (p. 23) to give more emphasis to strategy.
COMMENTS ON CHAPTER 3: PHYSICAL INFORMATION (PP. 24-8)

Bearing in mind the intended audience, ACCA suggests chapters 3 and 4 are swapped around so that the monetary issues are addressed before the physical issues, which will be new to many accountants.

ACCA considers that a materials balance (‘mass balance’) diagram (or real organisational example) would be beneficial to the text (p. 24) and recommends that it be included to provide a quick reference and greater clarity. The addition of references to sources where readers can learn more about materials balances and how to do them would also be valuable.

The term ‘relative indicators’ has been used in the ED (p. 25). These are also often referred to as ‘normalised indicators’ (eg in GRI terminology). ACCA suggests this popular alternative phrase should be mentioned or at least acknowledged for purposes of clarity and consistency.

The term ‘material inputs’ has been used in the ED (p. 25); this term can cause confusion in two ways:

- it could imply that the inputs have something to do with significance (ie materiality/relevance)
- it could imply reference to ‘materials’ used in production.

Since the term ‘material inputs’ is meant to include, for example, water and energy, ACCA suggests that ‘physical inputs’ would be a better heading.

The purpose of the table (p. 26) is to distinguish between inputs and outputs. It could be presented in a more effective way, however, such as by using a flow diagram or converting the table to one having three columns, with the final column heading being ‘Non-product outputs’ (see below).

<table>
<thead>
<tr>
<th>Material (physical)</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
An additional paragraph about addressing reporting boundaries for the reporting entity would fit well here. If it is assumed that boundaries should follow those of the financial reporting world then that should be stated clearly in addition to a reference to the consequences of outsourcing high impact operations (eg transport).

**COMMENTS ON CHAPTER 4: MONETARY INFORMATION (PP. 29-44)**

Currently the chapter reads more like a dictionary than a guide - this particular chapter is long and very text heavy. Although it would add to the text, the chapter would benefit from some worked examples to demonstrate the flow of costs, savings and benefits throughout the product life cycle. IFAC should position more clearly the method described in Chapter 4, and explain why this particular one is included - ie as an example of one particular approach, but not as the sum of everything that EMA can ever be.

The tables (pp. 43 and 44) could be made clearer for newcomers to EMA, by explaining, for example, how ‘material purchase costs of products’ would be allocated across the domains. Confusion should be avoided: at present, the domain headings themselves seem to have undue prominence because the subject matter under those headings appear (p. 41) to refer to information required mainly for regulatory returns rather than for internal management accounting purposes. This could be made clearer on the table itself, or the table could be modified. Since the only purpose claimed by the ED for this table is compliance, it is not apparent why an organisation might want voluntarily to add a further column for occupational health and safety (p. 42).
COMMENTS ON CHAPTER 5: SELECTED EXAMPLES (PP. 45-59)

This chapter could be organised more effectively and clearly. The text is very dense and the limited narrative thread gets lost. ACCA recommends that section and/or paragraph numbering be used: this might also help to emphasise the two separate sections (‘Examples’ and ‘Links’) within the chapter. IFAC may want to consider separating out these sections into two chapters.

The examples used are biased towards those from European countries - particularly Austria - and we recommend that a more representative global spread of examples be used.

Examples that cover EPIs (p. 51) and IRR issues (p. 52) have been included - but there has been little, if any, mention of these in the preceding text. ACCA recommends that a full explanation be provided for both EPIs and IRR in the main body of text, so the examples included in chapter 5 become relevant and better understood. The UNISAR, James & Bennett and WBCSD work on eco-efficiency indicators should be highlighted as a minimum.

The EC Recommendation (p. 55) has been included as an example of linking EMA to reporting but unfortunately, to date, this Recommendation has not been taken up by Member States, nor is it widely used by reporting organisations. Reporters are more likely to follow GRI guidance or other similar and more rigorous, globally accepted guidelines.

The case study ‘EMA for logistics management - UK and the Netherlands’ (p. 50) should be cross-referenced to the relevant chapter in Bennett and James (1998) (which is already included in the List of References) - Chapter 18, pp. 347-60, 'Life-Cycle Costing and Packaging at Xerox Ltd’ also by Bennett and James.

ACCA recommends that the well known Baxter Healthcare Environmental Financial Statement be added as an example.
COMMENTS ON APPENDICES A & B (PP. 60-5)

Please note that D. Walters is not an author on Accounting for the Environment 2nd edition and that the URL for CSEAR has changed to: http://www.st-andrews.ac.uk/management/csear/index.html

The Burritt/Schaltegger/Kokubu/Wagner reference on p. 60 needs changing. The title of the book should be Environmental Management Accounting: Purpose and Progress.

Several of the references provided by the ED are in German and are presumably available only in that language, and hence are likely to be relatively inaccessible to many users of the Guidelines. Inclusion of such a high proportion of non-English references might also give the unfortunate impression that the incidence of EMA internationally is geographically imbalanced. ACCA suggests that non-English texts be highlighted as such, and/or listed separately.

Additional references should include:

- Increase your profits with EMA, Envirowise, GG374
- Full Cost Accounting: An Agenda for Action (2001), CAET
COMMENTS ON OTHER ISSUES, SUCH AS GRAMMAR AND STYLE

Additional comments from ACCA are as follows.

The document lacks the appealing and informative graphics of the 1995 (US) EPA guide, An Introduction to Environmental Accounting as a Business Tool: Key Concepts and Terms and the practical approach of WRI's 1995 publication Green Ledgers: Case Studies in Corporate Environmental Accounting, which demonstrated how a better accounting of environmental costs leads to better business decisions. ACCA highly recommends that these two approaches - graphical and practical - be taken forward in the IFAC guidance paper.

The document would be easier to navigate through and refer to if the sections and paragraphs were numbered.

It is not clear why some bullet points on p. 10 are italicised.

The use of abbreviation ‘vs.’ as a separator is misleading in some places (see for example the second bullet point on p. 5, which could be misleading as it may carry the implication that the various items mentioned are alternatives or are being contrasted when in fact the areas mentioned are not at all mutually exclusive.

The change in font size and the indentation following the second bullet point on p. 7 are potentially misleading, making it look as though the paragraph in question is an amplification of the definition.

The style is overall quite dry and text heavy - ACCA encourages greater use of diagrams and charts where possible.

Is it necessary to include the full details of references in the footnotes as well as in the bibliography? ACCA suggests adopting the conventional practice of citing just the authors’ names plus date of publication in the text and footnotes, and restricting the full details to the bibliography.
Immediately following ‘Chapter 2 - Why EMA?’ on p. 18, there are three bullets relating to subsequent sub-headings - should there also be bullets for the following four sub-headings, or are these in fact sub-sub-headings under ‘Increasing recognition’, in which case this should be made transparent.

The ED uses colloquial language in a few places eg p. 15, ‘let’s not forget’. 