

Wednesday, March 11, 2015

Black Lab Pub, Churchill Room • 4100 Montrose Blvd.

Social 5:30 p.m., Dinner 6:30 p.m.

Cost: \$30 Preregistered members; \$35 non-members/walk-ups

To guarantee a seat, pre-register on the HGS website & pre-pay by credit card.

Pre-registration without payment will not be accepted.

Walk-ups may pay at the door if extra seats are available.

HGS Environmental & Engineering Dinner Meeting

Joy Young

Deloitte Financial Advisory Services LLP's

Navigating Pitfalls in Estimating Costs of Environmental Remediation Liabilities for Financial Reporting Purposes

Management of publicly-held companies is responsible for ensuring that the companies' financial statements and reports are presented in accordance with the applicable accounting guidance. Estimates generated to support Management's estimates of environmental liabilities should similarly align with accounting guidance and be fully auditable. In many cases, the base of Management's estimate is one generated by the company's environmental/engineering consultants. Management often has either not informed the consultant that the estimate will be used for financial reporting purposes or, the consultant does not have the appropriate understanding of the accounting guidance. Both of these situations may result in errors to the estimate from a financial reporting standpoint. Estimates of Fortune 500 companies audited in recent years still exhibit gaps in both the recognition of appropriate costs and the auditable support package for these costs. In some cases financial statement adjustments of nearly \$100M and subsequent restatements have been made, and management has received significant comments from the financial auditors and/or regulators. Certain pitfalls continue to be observed:

- Incorrect timing of the recognition of costs;
- Incorrect understanding of "probable," "reasonably possible," and "remote" costs and the importance of these distinctions to the financial statements;
- PRP assumptions;
- Omission of Closure costs and other Life Cycle costs;
- Lack of understanding of the audit process and lack of auditable support for the estimate (e.g., undocumented professional judgment);

- Inclusion of inappropriate Operating costs or costs related to an asset retirement obligation; and
- Estimate methodologies that violate Management's policies.

Several case studies demonstrate these errors and the role(s) of the environmental consultant and management's representatives in the generation of the estimate. Lessons learned from these cases illuminate ways to navigate these pitfalls, generate a more defensible management estimate, and improve client service. ■

Biographical Sketch

JOY YOUNG is a Manager in the Environmental & Sustainability Consulting (E&SC) practice of Deloitte Financial Advisory Services LLP's ("Deloitte FAS") in Houston. She focuses on applying her environmental science background to financial and performance reporting and business case development. Prior to joining Deloitte FAS, Joy was engaged with Environmental Resource Management (ERM) in the areas of Site Investigation and Remediation (SIR), Litigation Support, Mergers & Acquisitions (M&A, "due diligence"), Environmental Impact Assessments (EIAs), and Environmental & Sustainability planning. She has been involved in evaluating contingent environmental liabilities for internal evaluations and external financial reporting purposes for approximately six years and is an alum of the University of Houston – Clear Lake (Biology, Eco-toxicology).

