Instruments That Are Need To Ensure The Credibility Of Environmental Information

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Abstract: The main objective of the paper is to bring to the forefront the environmental audit, the environmental risk when auditing financial statements, in order to obtain an image on what environmental aspects represent in the field of audit. Objectivity of environmental information can be achieved only by means of the management control and audit process. In order to reflect an accurate image on the environmental impact within a company, we have tried to supplement the accounting model for environmental information presentation with the mechanism meant to ensure the objectivity of information provided. The paper supplements previous studies regarding environmental management and audit and brings a model for environmental accounting and management of information.

Keywords: environmental reports, environmental management, environmental audit, financial audit

I. INTRODUCTION

The deficit and degradation of natural resources, as well as the accidents related to environmental pollution emitted by multinational corporations have incited economical, political and social debates concerning these issues and generated significant concerns from many companies and governments. The industrial development, sustained by the economic and technological progress, has been criticized for its devastating impact on the environment, these companies having been urged to become responsible as far as their impact on the environment is concerned. In response, many companies have begun to report ecologic activities and environmental performance and these aspects fall under the attention of the company’s management, accounting professionals, researchers, regulation bodies and media. Large scale use of environmental reporting for a variety of purposes poses the problem of whether this information is objective or not. Checking the objectivity of such information can be performed by means of audit process. The same as for environmental information included in the financial statements the information presented in the environmental reports and sustainable reports are also the subject of audit process. In a study conducted by KPMG regarding the publishing of environmental information, it has been proven that most companies audit the environmental reports independently from the financial reports and that the number of companies auditing their environmental reports is increasing (Bențianu and Georgescu, 2008).

II. RESEARCH METHODOLOGY

The objective of the research paper is represented by the presentation of environmental management, environmental audit and environmental risk when auditing financial information.

Source: representation created by the author
statements, in order to have an image of what environmental aspects mean in the audit sphere. The research undertaken could be represented as follows (Figure 1): The presentation of environmental management, the role of financial and environmental audit in reflecting the objectivity of environmental information supplied is based on a fundamental, theoretical research. During this research we have raised questions which we tried to answer to: What is the role of corporate governance in managing environmental aspects? How do environmental management systems influence the environmental performance? Which are the environmental aspects that an auditor must have in view when auditing financial statements? What is the role of environmental audit in evaluating the way environmental aspects are being controlled and managed? Which are the similarities and differences between environmental and financial audit? What is the involvement of accounting profession in the performance of an environmental audit?

III. ENVIRONMENTAL MANAGEMENT

The financial scandals connected to the bankruptcies of certain British companies listed on the securities market, the Asian economic crisis of 1978 and the withdrawal of investors from Asia and Russia, have raised issues to the international business community in relation to the consequences that investors’ mistrust might have on the companies management. They resulted in mobilizing the governments, control authorities and investors and also the large public attention towards the fragility of the companies’ governing regime and the need to rethink this system.

The main objective of this subchapter is to cover the influence management has on handling environmental impact. For this we have considered the corporate governance concept and its role in the management and control of environmental performance and reporting, respectively the utility of environmental management systems in promoting environmental performance.

The substance used to define the concept of corporate governance has changed in time, moving from a functional and economical approach of agency’s issues to a more private, enclosed framework, seeking to protect both investors and other users. From our point of view, the corporate governance is most representatively defined from the user theory perspective, as it represents a mechanism able to ensure the supervision and control of actions taken by the management in order to secure the company’s legitimacy (Brennan and Solomon, 2008). The user theory creates a link between the corporate governance concept and the social responsibility concept, social responsibility being the determinant factor for management to consider ethical aspects to a wider extent.

The growing importance given to social responsibility at global level has influenced the relations between owner and manager expressed by the agency theory and has expanded the corporate governance concept beyond such relations (Tuttle et al., 1997; Booth and Schulz, 2004). Nowadays social responsibility became a profitable management strategy to the extent it generates, on the long run, the credibility and trust necessary for a company in her relations with everyone depending upon, shareholders, business partners and clients. The increasing importance of social responsibility makes us state that it has become difficult to differentiate corporate governance and social responsibility in the world economic landscape (Gill, 2008). Corporate governance, based on ethical codes of conduct, social responsibility and commitment to the society, represent an essential factor of environmental performance, management of company’s environmental impact, as well as the company’s environmental reporting.

Aside from the corporate governance, another important element environmental management uses to control and manage the environmental impact is the implementation of environmental management systems which should be seen more likely as an organizational approach than a technical instrument. Such a system could be defined as a component of the company’s management system, handling environmental aspects management as well as meeting the highest standards with regard to environmental performance.

From the point of view of standards evolution in the field of environmental management systems, the most known are the European standard EMAS (Eco-Management and Audit Scheme) and the international standard ISO 14001 (The Environmental Management System) standards that help improving the company’s image, increase its credibility before investors, authorities and other interested parties (Biondi et al., 2000; Rojanschi et al., 2004).

IV. FINANCIAL AUDIT AND ENVIRONMENTAL ASPECTS

The parties that are interested in a company’s financial statements need to be certain that these reports reflect a clear and complete image of the company’s performance and position. Auditing financial statements or financial audit provides such assurance, thus playing an important part in providing credible and objective information to interested parties.

The specific role of financial audit process is to evaluate and report the conformity of information included in the financial statements to a series of preset criteria. The objective of financial audit is to give the auditor the possibility to express an opinion regarding the degree in which financial statements are being elaborated in conformity, under all significant aspects, to an identified accounting reference system. When environmental aspects are significant to a company, there is a risk for occurrence of significant misrepresentations or inadequate or incomplete presentation of information within the financial statements. In such cases, the auditor must pay proper attention to environmental aspects during audit of financial statements.

After having brought environmental aspects to the forefront of financial audit and the importance of financial audit related to environmental performance management, we have
analyzed the aspects an auditor must have in view in order to discover the risk of significant misrepresentations in the financial statements due to environmental aspects: getting to know the client, evaluating the risks and the internal control, the role of valid legislation and regulations, the basic procedures.

As shown in our previous researches, the financial statements are incomplete or insufficient in order to reflect an accurate image of the company’s environmental impact. Environmental management accounting and the environmental reporting represent the two pillars supplementing the shortcomings of the traditional financial accounting system as far as company’s environmental impact is concerned. If the environmental aspects included in the accounting standards and regulations are certified by means of financial audit, as presented above, we have questioned ourselves: who handles the certification of information provided by environmental management accounting and information included in the sustainable reports, more precisely the environmental reports, in order to offer environmental information users an assurance regarding the accuracy of such information? The response to this question is the environmental audit.

V. ENVIRONMENTAL AUDIT

The increasing number of voluntary environmental reporting by the developed countries companies, as well as the legal requirements related to reporting certain environmental aspects in many European countries (Denmark, Holland, Norway, Sweden etc.) and more (USA, Canada, Australia etc.) raised issues regarding the certification of information included in these reports. The environmental audit is the response to such issues, becoming more and more accepted in various sectors of activity, because its greatest benefit is the gradual reduction of the company’s environmental risk (Unhee, 1997; Stanwick and Stanwick 2001, Mishra et al., 1997).

Environmental audit represent a basic pillar for ensuring an accurate image on the environmental impact of a company. From our point of view, environmental audit represents an evaluation of how environmental aspects are managed within a company, with the purpose of improving environmental management and securing a certain level of credibility for the environmental information provided. Therefore, environmental audit can be performed either for internal reasons, representing an instrument for evaluation, control and improvement of environmental management, or for external reasons, in order to ensure a reasonable level of assurance that environmental information evidence a clear and complete image regarding the company’s environmental impact. No generally accepted principles have been issued to a similar purpose as the accounting-financial regulations to the financial audit because of the character of environmental audit which is regulated to a very small extent (Dittenhofer, 1995; De Moor and De Beelede, 2005).

Even if environmental audit is not profitable from a financial point of view, the non-financial benefits it brings (increase of company’s public image, competitive advantages, assurance of credibility before clients and investors, sense of security given to the management with regard to the environmental aspects management) turn it into a profitable process or activity especially for the companies operating in industries or sectors regarded as heavy polluting or within companies that due to the activities performed or products supplied are subject to highly significant environmental laws and regulations.

There is a large number of purposes environmental audit can be conducted for. The types of audit mentioned before are not performed in full by internal or external auditors. They can be conducted individually or in combinations, as they are useful to the operating units, management and individuals using environmental reporting, in order to ensure credibility of environmental information. In the context where sustainable reports and especially environmental reporting have experienced a particular development lately, there’s the question of objectivity for the data included in such reports. Thus, a distinct importance in ensuring the objectivity of environmental information is given to auditing environmental reporting, mostly conducted by external auditors, to increase interested parties confidence.

We have also conducted a comparative approach of environmental and financial audit. The regulatory status of environmental audit is quite different momentarily to the financial audit, for which most countries have elaborated sets of standards. Although focused on financial audit, some of these standards are directly relevant for environmental aspects as well. As a result of lacking a set of general set criteria and the complex nature of environmental information users creating a multitude of purposes and objectives for the report, auditing an environmental report, respectively a sustainable report, is a much more difficult of a process compared to auditing financial statements, which makes the accounting profession to avoid involvement in the performance of environmental audit. From what we mentioned above, it appears that, in case of environmental report auditing, it is almost impossible, or at least inefficient from a financial point of view, to supply a high degree of assurance regarding the quality of the environmental report taken as a whole. The auditor’s opinion can include several degrees of assurance for different sections of the environmental report (Wallage, 2000; Karapetrovic and Willborn, 2001).

By means of two questionnaires applied to financial auditors in Romania and individuals certified to elaborate evaluation studies for environmental impact (EEI) and environmental balance sheets (EB), we have analyzed the involvement of accounting professions in the performance of environmental audit. Following the conducted study we can conclude that in the financial auditors’ opinion, Romanian companies give an insignificant importance to environmental aspects, the information they provide being general, insufficient and unclear to be able to reflect the company’s environmental impact. The Romanian financial auditors, although they would wish to get involved in such missions, very few of them take part in certification of sustainable reports, environmental balance sheets or other environmental audits. Perhaps this is due to the very small demand for
certification of sustainable or environmental reports (such reports in Romania are not mandatory), as for the other types of environmental audit, the accounting profession and financial auditors feel that non-existence of a guide on how to perform an environmental audit, as well as the lack of certain necessary technical knowledge are the biggest impediments to their involvement in performing environmental audits. The poor involvement from financial auditors in the performance of environmental audit is also confirmed by the persons certified to elaborate evaluation studies of environmental impact (EEI) and environmental balance sheets (EB). Certified evaluators consider that engineers are the most justifiable profession to perform the environmental audit, because of their technical knowledge, financial auditors failing to possess such knowledge. Nevertheless, 30% of the certified evaluators feel that financial auditors should be involved in these environmental audits; probably because despite of their lack of technical knowledge, their expertise regarding the organization and leading of an audit would represent a significant gain for the environmental audit performance. The involvement of financial auditors alongside with engineers, physicists, biologists, ecologists and other professions in the performance of environmental audit would represent a significant gain especially when it comes to auditing environmental information of financial nature, like environmental costs, environmental debts, provisions and environmental contingent debts. The conclusion was that both nationally and internationally, only a small portion of accountants and financial auditors are effectively involved in environmental audit as a result of the accountants reserve with regard to the uncertainty coming from lack of a mandatory general framework. Lacking regulations and general reporting frameworks for environmental information determine auditors to avoid the fields where their expertise might prove useful. This can also explain why professional bodies focus this much on developing general frameworks and standards in their publications. An environmental audit requires different types of abilities and as a result, the most reasonable way to organize this type of audit appears to be teamwork, by involving auditors, accountants, engineers or other experts in environmental aspects.

VI. RESULTS AND CONCLUSIONS

Objectivity of information can be achieved only by means of the audit process. Thus, we have tried to supplement the accounting model for environmental information presentation with the mechanism meant to ensure the objectivity of information provided, in order to reflect an accurate image on the environmental impact within a company. As a result, we have created the responsible model for environmental impact presentation represented as follows (Figure 2):

The model is based on environmental management accounting, functioning within an environmental management system, on which an internal environmental audit should be adequately performed;

The second pillar, within the model, should be represented by traditional financial accounting, financial statements being subject to financial audit;

The third pillar should be represented by environmental reporting and auditing thereof within the external environmental audit.

Source: representation created by the author

To be mentioned that the corporate governance, based on codes of ethical conduct, social responsibility and commitment to the society, represent an essential factor for environmental performance, management of company’s environmental impact as well as the environmental reporting within a company.

Following a comparative analysis between financial and environmental audit, we were able to point out that, due to non-existence of generally set criteria as well as the complexity of environmental information users, creating a multitude of objectives and purposes for the report, the process of auditing an environmental report and a
sustainable report respectively is a much more difficult process by comparison to the auditing of financial order to be able to reflect how much the accounting profession respectively the Romanian financial auditors involve into the performance of environmental audit, we have utilized the questionnaire as research method, applied to financial auditors on one hand, and legal and natural

VII. REFERENCES


