

INSTRUMENTS THAT ARE NEEDED TO ENSURE THE CREDIBILITY OF ENVIRONMENTAL DISLCOSURE

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The main objective of the paper is to bring to the forefront the environmental audit and the environmental risk when auditing financial statements, in order to obtain an image on what environmental aspects represent in the field of audit. The study is based on a fundamental, theoretical research and on a questionnaire applied to financial auditors regarding their involvement in providing environmental audit. Objectivity of environmental information can be achieved only by means of the audit process. The paper supplements previous studies regarding environmental audit and brings a model for environmental accounting and audit of information.

Keywords: environmental disclosure, environmental audit, financial audit, financial auditors

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1. Introduction

The industrial development, sustained by the economic and technological progress, has been criticized for its devastating impact on the environment 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 (Benţianu and Georgescu, 2008).

2. Research methodology

The objective of the research paper is represented by the presentation of environmental audit and environmental risk when auditing financial statements, in order to have an image of what environmental aspects mean in the audit sphere. During this research we have raised questions which we tried to answer to: 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?

The presentation of the role of financial and environmental audit in reflecting the objectivity of environmental information supplied is based on a fundamental, theoretical research. Also, by

means of a questionnaire applied to financial auditors in Romania we have analyzed the involvement of accounting professions in the performance of environmental audit.

3. 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 studies conducted by Gray and Bebbington (Gray, 2006; Bebbington and Gray, 2001) 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.

4. 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 Beelde, 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 are 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).

5. Accounting profession and environmental audit

After defining the environmental audit and its role in assuring objectivity regarding environmental information presented in annual and environmental reports we analyse the involvement of accounting profession in the performance of an environmental audit. There were many study that demonstrate the important role of an Internal or external auditor in conducting environmental audits (Taylor et. all., 2001; Cahill, 2002; Tucker și Kasper, 1998; Picard, 1998; Kite et.all., 1996). The involvement of financial auditors in performing environmental audit in New Zealand have been explored by Chiang and Lightbody (Chiang and Lightbody, 2004) who conclude that although the audit profession could have an important role in performing environmental only a few of them explored this possibility.

For analysing the involvement of accounting professions in the performance of environmental audit we have used as a research tool the questionnaire applied to financial auditors in Romania. The auditors were selected from www.cafr.ro which is the official site of The Chamber of Financial Auditors from Romania. From a total number of 2234 financial auditors to whom we sent the questionnaire in the period 27 July-15 August 2009, we received answers from 276, representing over 12 percent, which can be statistically validated. The questions and the responses are presented in Table1.

Table1. The involvement of financial auditors in performing environmental audit

No.	Question	Multiple choice response	Number of auditors who respond	Percent
1	What is from your opinion the importance given by the Romanian companies to environmental aspect?	Consider important	23	8%
		Not consider important	106	38%
		Limited importance	147	53%
2	Should environmental risk be considered when assessing the inherent risk?	Yes	238	86%
		No	38	14%
3	Have you been involved, along your professional experience in performing environmental audit?	Yes	23	8%
		No	253	92%
4	Do you consider that accounting profession and financial auditors should play an active role in performing environmental audit?	Yes	203	74%
		No	73	26%
5	In the next 12 months, are you going to get involved in performing environmental audit?	Yes	113	41%
		No	163	59%
6	What are the factors that hinder the involvement of a financial auditor in performing environmental audit?	The lack of a guide or standard for environmental audit	167	61%
		The lack of technical knowledge in the field	160	58%
		The lack of professional skills necessary for carrying out environmental audit	77	28%
		Other factors	64	23%

Source: representation of the responses obtained

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

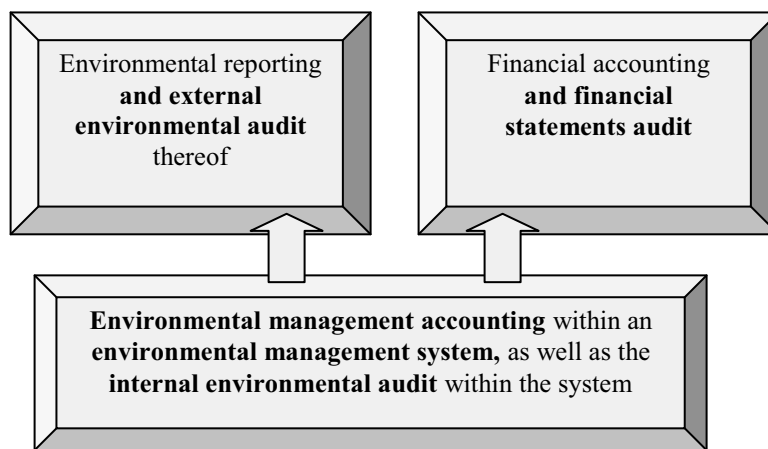
impact. The Romanian financial auditors, although they would wish to get involved in such missions (74%), very few of them take part in certification of sustainable reports, environmental balance sheets or other environmental audits (8%). Perhaps this is due to the very small demand for certification 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. We consider that 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.

6. 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 (Figure1):

- 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.

Figure1. The responsible model regarding the company’s environmental impact



Source: representation created by the author

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 statements, which determines the accounting profession to avoid involvement in conducting environmental audit.

At the national and international level, 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.

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