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ENVIRONMENTAL ACCOUNTING AND REPORTING PRACTICES: SIGNIFICANCE AND ISSUES IN NIGERIA LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT: *The present study entitling "Environmental Accounting & Reporting Practices: Significance and Issues: A Case listed Deposit Money Banks (DMBs) in Nigeria" is based on primary data. The primary data were collected from the total number of 34 Accountants, taking two from each company. The main findings of the study are: i) the respondents have felt the strong significance of EA (Environmental Accounting) and ER (Environmental Reporting) in their Annual Reports, ii) the respondents have also been aware for EA and ER practices, iii) the respondents have identified some major problems involved in EAR (Environmental Accounting and Reporting) practices as shown table 4 and also have suggested some measures as presented in table 5. From the above discussions, it is clear that EAR practices in DMBs is highly significant but not too satisfactory as there are many issues hindering them from carrying out best practices in EA and ER and hence poor in real sense of the term. Therefore, in order to improve the EAR practices in the DMBs, the proper authority need to implement the suggestions put forward by the respondents without any further delay.*

KEYWORDS*:* environmental accounting, reporting practices, deposit money banks Nigeria.

INTRODUCTION

Background of Study

The modern accounting is not only concerned with record keeping and reporting of information to the investors but it aims at fulfilling the information needs of a wide range of internal and external stakeholders. It is now considered as a service activity. Estimating and accounting for the costs of environmental impacts is a rapidly developing area of management, accounting, and finance (Fakir *et al,* 2016). Its function is to provide quantitative information primarily financial nature about economic activities that is intended to be useful in making economic decision.

Organizations exist as a subsystem of the society. It could happen that the undertakings of an entity, its human assets, physical assets, infrastructures (e.g. offices, branches, equipment), and engaged facilitators of its business activities and operations such as suppliers, contractors and third party service providers could deliberately or accidentally cause damage to the environment and the society (Oyewo and Badejo (2015). To put it differently, business activities could, in uncontrolled circumstances, produce unfortunate negative Environmental and Social (E&S) impacts including air and water pollution; destruction of biodiversity and ecosystems; threats to human health and safety; violations of labour rights; displacement of livelihoods. It does make sense to give back to the society for this disturbance, necessitating sustainable development. Miles (2015) opines that giving back to the society may not necessarily be monetary or materialistic. The process starts with conducting business

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operations in such a manner that the society is not damaged, deterioration minimized or the remediation of damage done is corrected in a timely fashion

Due to growing public concern about the alarming impact of industrial activities on nature companies are under pressure from both Government and society to reduce adverse impacts of their activities on the environment. The performance of an Organization is now being judged not only on the basis of its financial results, but also with regards to its contribution to protect and improve the environment.

Environmental issues have become an important variable in the models used by the investors and creditors to determine the risk associated with their investment. In the developing scenario, the need for accounting and reporting on the environment has been largely felt. As a result accounting of environmental issues, their disclosure in the environmental issues and their disclosure in the annual reports or by other medium has became an important part of corporate accounting and reporting systems. In order to improve the quality of what companies report, there is a need to examine the ways in which companies include environmental indicators in their corporate reports. From prior studies in the Nigerian context, there is little research on the significance and issues of environmental accounting in Deposit Money Banks (DMBs). Moreover, some prior studies examined the number of only two type of indicator that is, economic and social.

Financial institutions have been considered as less environmentally sensitive based on their business operations. However, the services of their clients such as companies and individuals operating in the oil sector, manufacturing sector and agricultural sector, amongst others could be prone to environmental and sustainability risks. The Global Reporting Initiative (GRI, 2015) recognizes the need for financial institutions to be accountable for their social, economic and environmental impacts and has put in place the financial services sector disclosures. The main objective of the study is to examine the environmental accounting and reporting practices, its significance and issues in listed deposit money banks in Nigeria.

Statement of Problem

Environmental accounting is one of the key areas of accounting in recent times and it has been highly recognised and given top priority in developed economies and world. In Nigeria and many developing economies, environmental accounting has not been given the needed attention as accounting practices still focuses on financial accounting and book keepings. Therefore, the importance needed to be given to environmental accounting in Nigeria is not given. This makes it difficult to have the information needed on the impact of companies and organisation on the environment leading to different environmental problems in our society.

LITERATURE REVIEW

Environmental Accounting

Environmental accounting involves the identification, measurement and allocation of environmental costs, and the integration of these costs into business and encompasses the way of communicating such information to the companies' stakeholders (Pramanik *et al*, 2017). Environmental accounting is defined as the identification, collection, estimation and analysis of environmental cost information for superior decision-making within the firm. It can be defined as the generation, analysis, and use of financial and non-financial information in order to optimize corporate, environmental and economic performance, achieving a sustainable business the ultimate objective of environmental accounting is to clearly indicate the environmental cost of each process, separating the non environmental costs from the environment costs (Fakir *et al,* 2016).. Therefore implementing an environmental accounting system can provide more accurate information for Analysis options because environmental accounting ensures that management decisions are made with knowledge .Environmental accounting is a field that is promising and developing (CICA 2015). Its goal is the identification, measurement and communication of the costs from an entity's actual or potential impact on the environment (CICA 2015). To include environmental information in the accounting system of a company is one way to start to include sustainable development in everyday business decisions. A very important function of environmental accounting is to bring environmental costs to the managers; therefore, motivating them to identify ways to reduce and avoid economic costs related to the environment and at the same time reduces the company's environmental impact.

Functions of Environmental Accounting

According to Bebbington (2015) there are seven Functions of environmental accounting, which are:

i. Recognising and seeking to mitigate the negative environmental effects of conventional accounting practices

ii. Separately identifying environmentally related costs and revenue within the conventional accounting systems

iii. Taking active steps to set up initiatives in order to ameliorate existing environmental effects of conventional accounting practices

iv. Devising new forms of financial and non-financial accounting system. Information systems and control systems to encourage more environmentally design management decisions

v. Developing new forms of performance measurement, reporting and appraisal for both internal and external purposes

vi. Identifying, examining and seeking to rectify areas in which conventional (financial) criteria and environmental criteria are in conflict

vii. Experimenting with ways in which sustainability may be assessed and incorporated into organisational orthodoxy.

Need for Environmental Accounting

Despite of the significance changes to environmental information in business financial reporting and decision-making in the content, in a comprehensive study Epstein (2016) concluded that most companies do not know the possibility of their environmental costs. As a result, they do not know what causes those costs. It is generally agreed that, decades ago, the lack of understanding of the eventual environmental impacts of products and services together with the related liabilities caused companies to ignore the consideration of those impacts in their calculation of product costs. Traditional accounting is limited when it comes to measuring natural wealth. Accountants measure assets, earnings, one year behind the times. If we want to account for the environment, we have to look forward. Accountants need to develop new ways to account for natural resources. Environmental accounting forms that part of accounting that deals with environmental concerns. Although it is indivisible from financial and managerial accounting, it addresses specifically the environmental costs related to information systems that permit data collection and analysis, performance follow up, decision making and accountability for the management environmental risk and costs (Fakir *et al*, 2016)). Environmental Accounting helps to know whether corporation has been discharging its responsibilities towards environment or not. Basically, a company which DMBS is not left out has to fulfil some environmental responsibilities such as, meeting regulatory requirements, cleaning up pollution that already exists and properly disposing of the hazardous material and disclosing to the investors both potential & current, and the amount and nature of the preventative measures taken by the management. To achieve these goals environmental accounting helps to design and implements the environmental management systems to incorporate environmental considerations into the capital budgeting decision, and to calculate costs and savings of environmental projects including formulation of strategies.

THEORETICAL FRAMEWORK

Stakeholder's Theory

This research work is premised on the stakeholders' theory. The stakeholders theory posits that the organization exist not primarily for itself and owners but also for the benefit of the society. Moral and value considerations are as important as profitability matters in a business (Mansell, 2016 Miles, 2015). Recognizing that there are other stakeholders that have interest in the organization has implications for business policy and strategies, such as striking a balance between environmental sustainability and profitability. Czyzewski and Hull (1991) submitted that an organization that places too much concern on profitability with little or no consideration for environmental sustainability may not remain competitive in the long run because, for organizations to remain going concerns, maintaining relevance by solving the environmental, social and economic problems of the society becomes sacrosanct.

The stakeholders' theory, in the context of this research, posits that organisations engaging in environmental sustainability development practices are doing so, as a way of giving back to the society. They are not just concerned about the owners of the organisations (shareholders) but also other stakeholders such as the government and their host community. It is this realisation that therefore spurs them to get involved in environmental sustainable developments good environmental accounting and reporting system.

An organisation contributing to environmental sustainability is likely to remain profitable eventually, because environmental sustainability activities are expected to portray a good image of the organisation, such as to attract customers' patronage and investors' interest, incidentally leading to favourable financial performance. For example, an organization that promotes environmental sustainability by remedying environmental damages caused by the release of toxic substance, emission, waste or pollution into the environment as a result of its operations will be seen as being environmental-friendly. Also an organization that promotes social sustainability through the delivery of corporate social responsibilities is likely to earn the goodwill of the society. Firms enhancing economic sustainability by providing goods and services that meet the needs of the society will equally enjoy public patronage. Either a firm engages in one or all of the three sustainability approaches – environmental, social and economic— such a firm will have a good public image, which will favour it as per patronage by the public, thereby eventually leading to profitability (Miles, 2012).

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Therefore the understanding that by giving to the society, the company will benefit more should naturally motivate any rational individual, group, or organization to intrinsically and willingly give to the society.

Legitimacy Theory

Legitimacy theory explains and considers the relationship between organization and society (Killic *et al*, 2015) Suchman (1995) defines legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within the same socially constructed system of norms, values, beliefs and definitions. Legitimacy theory in the research can be divided into strategic and institutional (Comyns, 2015). Strategic legitimacy consists of resources and control which an organization uses to achieve social support over managerial performance (Comyns, 2015). Strategic legitimacy explains organizations' desire and motivation for Environmental Accounting and Reporting (EAR) and Sustainability issues. From the legitimacy perspective EAR reporting is an influential utensil of a company to communicate with society (Lu *et al*, 2015). Legitimacy is important for every organization to manage its strong and reputed position and status in the society and to know the reactions of respondents from the society. For the legitimacy concern companies are interested in disclosing positive information rather than negative information (Sobhani et *al*, 2015). Organizations in both developed and developing countries use publications and reports to mitigate pressure on controversial environmental decisions by which legitimacy is threatened (Comyns, 2015). Nowadays, organizations are very concerned about public perception of their prevailing environmental activities for that they consider EAR reporting is an emerging tool to gain societal support and reputation (Lu *et al*, 2015; Comyns, 2015). Therefore, legitimacy comprises social systems, norms, rules and meaning that can ensure companies responsibility and accountability on EAR. Moreover, legitimacy can create opportunities and attraction of economic resources to ensure the social and political support (Nurunnabi M, 2015). Prior research on legitimacy has documented the use of social disclosures in annual reports as tools to legitimize organizations. Many studies have found that EAR disclosures are commonly positive and self-praising, with a little bad and neutral news disclosed (Comyns, 2015). Therefore, we expect that Nigeria banking companies will disclose EAR information to cope with the legitimacy pressure from the societal exceptions.

METHODOLOGY

The study is essentially based on DMBs in Nigeria. A total of 17 listed DMBs have been selected and information on environmental accounting and reporting practices was obtained by contacting the bank sources. The data year is 2020. All the selected DMBs are the listed DMBs in Nigeria. The sample selection is influenced by the objectives of the study and is constrained by the accessibility to the selected DMBs. The sample design is shown in Table 1. Given the time and resource constraints, the nature of the study tends to be mainly exploratory and descriptive.

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Table 1: Sample Design

S/N	Deposit Money Banks (DMBs)	Questionnaire in each bank
1	Access Bank Plc	2
2	Eco Bank Nig, Plc	2
3	Fidelity Bank Plc	2
4	First Bank Nigeria Limited	2
5	First City Monument bank (FCMB) Plc	2
6	Guaranty Trust Bank Plc	2
7	Heritage Bank Plc	2
8	Keystone Bank	2
9	Polaris Bank	2
10	Stanbic IBTC bank Limited	2
11	Standard Chartered Bank Nigeria Limited	2
12	Sterling Bank Plc	2
13	Union Bank of Nigeria Plc	2
14	United Bank for Africa Plc	2
15	Unity Bank Plc	2
16	Wema Bank Plc	2
17	Zenith bank Plc	2
Total		34

The present study has considered primary data in order to assess the, significance and awareness of the respondents as to the environmental accounting and reporting practices. The primary data relating to the problems involved in EAR and suggestion of some measures as to overcome the problems were also collected. To this end, a total number of 34 Accountants, taking two (02) from each selected DMB were interviewed by direct method with the help of a structured questionnaire. Both the primary and secondary data collected for study purposes were processed manually to present the findings of the study.

DISCUSSION OF FINDINGS

Significance of EA and Reporting

The EAR can uphold the green image of DMBs. They can make their annual reports more informative by providing environmental information. This reporting is important for the following reasons (Belal, 2017).

1. It would aid the discharge of the DMBs accountability and increase its environmental transparency.
2. It helps examining of the concept of environment and determining the DMBs relationship with the society in general and the environmental pressure groups in particular. This helps an DMBs in seeking to strategically manage a new and emerging issue with its stakeholders.
3. DMBs may be successful in attracting funds from ‘environmentalist’ individuals and groups.
4. DMBs involving in environmental accounting report practices may take competitive marketing advantage.
5. DMBs may show their commitments towards innovation and change by making environmental disclosures.

6. Environmental reporting may be used to combat potentially negative public options.

In order to make environmental awareness, World Environment Day is observed on June 5 every year. The major purpose of an environmental accounting system is its capability to assist in the understanding and management of potential tradeoffs between conventional economic development objectives and environmental goals as a tool of policy formulation. The theory of environmental management that has developed over the past three decades views the environment as a source of economic wealth whose value reflects the services provided to society by the environment. If these services were traded in conventional markets, they would presumably command a positive price, reflecting what society would be willing to pay for them, as well as their scarcity. With this theory in mind, and linking it with the conventional economic accounts, one approach is to define an additional economic sector, i.e., 'Nature', and to account for the non-marketed goods and services generated by this sector in a way that is similar to the treatment of marketed goods and services generated by conventional sectors (Peskin, 2015).

Accountancy has traditionally measured financial resources, but must now find ways to monitor the use and value of environmental resources both in terms of the raw materials consumed, the damage inflicted upon the environment by commercial activity and the waste disposal service which the environment provides. The lack of accurate environmental measurement within the traditional accounting model means that environmental goods and services are often undervalued, which contributes to their misuse and explanation. With mounting natural calamities, the need for incorporating environmental costs (expenditure) in the financial statements of both multinational corporations and DMBs and to introduce the concept of environmental accountability and have environmental costs appear in Board of Directors reports, financial statements and the auditors reports has been greatly felt. In the absence of comprehensive accounting standards in the area of environmental protection measures, it was not surprising that International Standards Accounting Review: 1989 found that both the quality and quantity of disclosure was quite limited. Generally, when information appeared, it was found in the board of directors' report rather than in the financial statements or the notes.

Environmental reporting is an important aspect of a DMBs information system for external communication. Many DMBs realize the value of voluntary reporting on clients' business environmental performance, in addition to financial results. Various stakeholders show an increasing interest in such information. An effective environmental report can help assure stakeholders of the DMBs strategy for continued financial success without affecting environment. Environmental accounting and hence reporting is thus a means of stakeholder communication.

In order to know the respondents' views regarding the significance of EAR a total number of 34 Accountants in DMBs have been surveyed. Their responses are tabulated below:

Table 2: Significance of EAR Practices on DMBs

Environmental issues						WAS
	Highly significant	Significant	Neutral	Not significant	Not at all significant	
Sign. of EA	26(76.4%)	4(11.8%)	0	4(11.8%)	0	4.7
Sign. of ER	28(82.4%)	6(17.6%)	0	0	0	4.9

Source: Field Survey, 2020

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It is revealed from table 2 that 76.4% of the total respondents opined in favour environmental accounting is highly significant in DMBs; only 11.8% of the respondents opined in favour of significant only of environmental accounting in DMBs and the remaining 11.8% were not in favour of the significance of environmental accounting in DNBs. As regards the ER, 82.4% of the respondents were in favour of highly significance and the rest 17.6% were in favour of significant only. The WAS for significance of EA has been calculated on 4.7 in the 5 Point Likert Scale. Again WAS for significance of ER has been computed at 4.9 in the 5 Point Likert Scale. All these figures signify the strong significance of EA and ER in the Financial Statement and Reporting practices of the selected DMBs.

Awareness of Respondents Regarding EA and ER:

After assessing respondents' views regarding the significance of EAR in DMBs, it is essential to measure the awareness of the respondents regarding EA and ER. To know the awareness of the respondents as regards EA and ER in DMBs is of utmost important to examine how much gap exists between the significance and awareness. The selected respondents were requested to give their opinion as regards awareness. The following table shows their responses in 5 point Likert Scale:

Table 3: **Awareness of Respondents Regarding EA and ER**

Environmental issues						WAS
	Highly Aware	Aware	Neutral	Not Aware	Not at all Aware	
Sign. of EA	21(61.7%)	10(29.4%)	0	3(8.9%)	0	4.50
Sign. of ER	26(76.4%)	5(14.7%)	0	3(8.9%)	0	4.57

It is observed from the table 3 that 61.7% of the total respondents opined in favour of highly aware of environmental accounting; only 29.4% of the respondents opined in favour of aware only for environmental accounting and the remaining 8.9% were not aware of environmental accounting. As regards ER, 76.4% of the respondents were in favour of highly aware, 14.7% were aware only and the rest 8.9% were not aware of environmental reporting. The WAS for awareness of the important of EA has been calculated on 4.50 in the 5 Point Likert Scale. Again WAS for awareness of the importance of ER has been computed at 4.57 in the 5 Point Likert Scale. All these figures signify the strong awareness of the accountants for EA and ER in the Financial Statement and Reporting practices in the listed DMBs

Problems involved in EA & ER Practices

One of the important objectives of the present study has been to identify the major problems involved in EARP in the listed DMBs. To this end our respondents were requested to mention the major problems of EARP. The following table shows the specific problems identified by the respondents:

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Table 4: **Problems involved in EA & ER Practices**

Specific problems		Frequency	Percentage (%)
A	**Legal problems**:		
1	Lack of provision regarding EAR in the DMBs act	34	100%
2	Lack of provision in the National Environmental Management Action Plan regarding EAR.	25	73.5%
3	Lack of provision in Income Tax Ordinance regarding EAR.	26	79.4%
4	Lack of professional guidelines regarding EAR.	17	50%
B	**DMBs problems:**		
5	Lack of policies and management support regarding EAR practices in DMBs.	31	91.1%
6	Shortage of qualified and trained staff in Environmental Accounting	28	82.3%
7	Conflict with business motivation with EAR objectives	14	41.1%
C	**Individual Level problems:**		
8	Lack of knowledge and training of the Accountants on EAR.	27	79.4%
9	Lack of favourable attitude of the Accountants regarding EAR.	19	55.8%

It is revealed from table 4 that the problems: “Lack of provision regarding EAR in the DMBs Act” and “Lack of policies and management support regarding EAR practices” were identified as the top most problems of EARP which have been identified by 100% and 91.1% respondents respectively. The next important problems are: “Shortage of qualified and trained staff in environmental accounting (82.3%)” and “Lack of provision in Income Tax Ordinance regarding EAR (79.4%)”, “Lack of knowledge and training of the accountants on EAR” which was identified by 79.4% respondents. The next important problems are: “Lack of favourable attitude of the accountants regarding EAR.” as identified by 55.8% respondents; “Lack of professional guidelines regarding EAR” as identified by 50% respondents and last problem namely “Conflict with business motivation with EAR objectives” has been identified by 41.1% respondents. Therefore, it can be said that all the selected listed DMBs have been facing the above mentioned problems of EAR practices in their respective banks.

Suggestions to Overcome the Problems

The selected respondents were also requested to suggest some measures as to overcome the above mentioned problems of EAR practices in their organization. Their suggestions are tabulated in table 5 below:

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Table 5: Suggestions to Overcome the Problems

Specific problems		Frequency	Percentage (%)
A	**Legal problems**:		
1	Inclusion of provision regarding EAR in the DMBs act	34	100%
2	Inclusion of provision in the National Environmental Management Action Plan regarding EAR.	34	100%
3	Making provision in Income Tax Ordinance regarding EAR.	28	82.3%
4	Existence of professional guidelines regarding EAR.	28	82.3%
B	**DMBs problems:**		
5	Provision should be made regarding EAR in the DMBs policies and management support	28	82.3%
6	Availability of qualified and trained staff in environmental accounting	27	79.4%
7	Removal of conflict of EAR objectives with business motivation.	17	50.0%
C	**Individual Level problems:**		
8	Continuous job training should be given to the Accountants on EAR.	34	100%
9	Attitude of the Accountants regarding EAR should be made positive.	17	50.0%

Table 5 reveals that 100% of the respondents have put forward the following suggestions as to overcome the problem of EAR practices; Inclusion of provision regarding EAR in the DMBs act, inclusion of provision in the National Environmental Management Action Plan regarding EAR and Continuous job training should be given to the Accountants on EAR. Again, the following suggestions have been offered by 82.3% respondents; Making provision in Income Tax Ordinance regarding EAR, Existence of professional guidelines regarding EAR, Provision should be made regarding EAR in the DMBs policies and management support. Also, one suggestion has been offered by 79.4% respondents as availability of qualified and trained staff in environmental accounting. Lastly, the following suggestions have been given by 50% respondents; removal of conflict of EAR objectives with business motivation and attitude of the Accountants regarding EAR should be made positive.

From the above discussions it can be said that all the above suggestions put forward by the respondents demand special attention of the appropriate authority in order to improve the EAR practices in the listed DMBs in Nigeria.

Summary

Environmental accounting and reporting is very important as it involves the identification, measurement and allocation of environmental costs, and the integration of these costs into business and encompasses the way of communicating such information to the bank stakeholders which help them in making critical decisions that will protect the environment as well as improve the financial performance of the DMBs. It was revealed in table 2 that environmental accounting and environmental report are very significant in DMBs practices with WAS of 4.7 and 4.9 respectively. It was also revealed in table 3 that DMBs are aware of the significance of environmental accounting and environmental reporting with WAS of 4.50 and 4.57 respectively all under Likert scale of 5.0. it was also revealed in table 4 that environmental accounting and report is faced with couple of challenges with highest rating been lack of provision regarding EAR in the DMBs act accounting for 100% and lowest was conflict with business motivation with EAR objectives accounting for 41.1%. The study also revealed some suggestion of respondents in bringing solution to the identified problem of environmental accounting and reporting in DMBs such as inclusion of provision regarding EAR in the DMBs act, inclusion of provision in the National Environmental Management Action Plan regarding EAR, continuous job training should be given to the Accountants on EAR, among others.

CONCLUSION

The paper investigated the significance and issue of environmental accounting reporting practices in listed DMBs in Nigeria It was discovered that environmental accounting and reporting is highly significant in DMBs. It also established that there are couple of problems in environmental accounting reporting practices in listed DMBs in Nigeria. it is therefore concluded that environmental accounting reporting and practices should be encouraged and improved upon in the DMBs in Nigeria.

Recommendation

The following are the recommendations based on the findings of the study:

i. Regulatory bodies should develop a standard to guide the practices of Environmental Accounting and Reporting.
ii. Research and studies should be encouraged in the field of Environmental Accounting and Reporting.
iii. DMBs should show data on environmental expenditure, environmental costs charged to income in the notes to the accounts in their annual reports.

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