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MANDATORY ENVIRONMENTAL DISCLOSURES BY COMPANIES COMPLYING WITH IAS/IFRS: A CASE OF NIGERIA

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ABSTRACT: *The Report of the Vision 2020 Committee set up to provide a roadmap that will propel Nigeria among the top 20 world economies by 2020 acknowledged that the country is faced with many environmental problems such as the continuous exploitation of marginal lands, drought and desertification in the north, severe gully erosion in eastern and northern states, uncontrolled logging with inherent problems of the destruction of bio-diversity, inappropriate agricultural practices, destruction of watershed, destruction of vast agricultural lands, creation of burrow pits due to bad mining practices and road works, oil pollution from spillage and gas flaring, urban decay and squatter settlements, industrial pollution and municipal waste generation among other things. In view of the above, this paper examines mandatory disclosure of environmental accounting by companies complying with IFRS/IAS in Nigeria. Contents analysis research design was adopted by reviewing the available literature in the field of this study. It was discovered that Nigeria was facing with challenges of inaccurate data, incompetent manpower, and lack of transparency among companies. Despite these shortcomings Mandatory reporting present several advantages such as the creation of standardized and comparable measures that enable benchmarking and best practices among companies complying with IFRS/IAS in Nigeria. It was concluded that aside from complying with IFRS/IAS, Incentives and enforcement was also identified as a factor for full convergence and comparability among companies.*

KEYWORDS: environmental disclosures, companies, IAS, IFRS, Nigeria

INTRODUCTION

Background to the Study

Many larger companies now regard environmental issues such as climate change as a commercial opportunity just as much as a risk. Reputation can be enhanced by a policy of transparency, enabling the market to identify businesses that are more forward looking. Disclosure about research and development expenditure, for instance, could be linked to spending on environmental measures. As well as earning competitive advantage, the process of reporting, particularly the disclosure of management policy on any material environmental matters will help to avoid risks and drive internal change. Increased disclosure resulting from the business review requirement is

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therefore welcome a foundation on which useful information about environmental and social issues can be built

In the recent years environmental effect of economic development has become a matter of great concern. A number of companies all over the world have started the practice of making environmental disclosures in annual reports. However there is lot of variation in the disclosure practices all over the world. There is no international accounting standard which exclusively deals with environmental issues in the corporate annual reports. The analysis of IAS/IFRS shows up that no international standard is exclusively dedicated to the provisions of such information but there are numerous direct and indirect remarks on the topic of environmental accounting in the different accounting standards.

Statement of the Problem

The existence of environmental management accounting is a first step to improve environment as well as economic performance. Sustainability Reporting among Nigeria firms indicate their commitment for improvement of environmental performance. In view of this information it is likely that business firms have evolved their accounting system to provide information for environmental related decision making. The Environmental Management Accounting system, being designed for effective internal management of environmental and economic performances may be existing in organizations but may not be formally documented and/ or reported as it is not mandatory or felt necessary by organizations. The industries should focus and set aside a part of their funds for environmental protection and ecological balance. Thus business organizations are expected to account for the use of substances which may damage the Environment. Green accounting is in preliminary stage in Nigeria. Nigeria Corporate are now introducing a separate firm environmental policy such as taking steps for pollution control, comply with the related rules and regulations, mention adequate details of environmental aspects in the annual statements as per the information IFRS/IAS.

Objective of the study

The key objectives of this paper is to know the meaning and importance of Environment accounting, and at the same time, understand the application aspect as per IFRS/IAS, especially in Nigeria. The paper also examines the steps adopted to incorporate Environment Accounting in companies as per IFRS/IAS

REVIEW OF RELEVANT LITERATURE

Conceptual Framework

Definitions of Corporate Environmental Reporting/Disclosure

Environmental reporting is an umbrella term that describes the various means by which companies disclose information on their environmental activities. This should not be confused with corporate environmental reports (CERs), which represent only one form of environmental reporting. Environmental disclosure can be defined as the disclosure made by an organization about its positive and negative iimpacts on the broader physical environment within which it operates.

Mandatory v/s Voluntary Environmental Disclosures

Due to economic expansion and the population growth there is a lot of pressure on diminishing natural resources in one hand and it also results in degradation of environment. So, it is very clear that there is need of changing the way business is carried traditionally. Accounting and reporting is not an exception to this? Increasing awareness among the different groups of society needs a new era of public reporting. It means that conventional method of financial reporting is not enough. It also implies that non -financial reporting like social responsibility reporting also needs (Agabi,1998).

Some change and needs expansion in the way information is reported. Till now there are only a few large companies that are making social and environmental reports. Now there is a need of such non-financial reports at large scale and even medium or small scale organization must also prepare such reports. This cannot simply be the result of regulatory pressure, but different forms of regulation including self-regulation can play an important role in advancing the comparability, credibility and relevance of information disclosed. There is a debate among academicians, business managers and legal experts about mandatory environmental reporting or voluntary environmental reporting. Corporations on one side demand that there should be voluntary disclosure of non-financial information including environmental information, on the other hand NGO and pressure groups mandatory disclosures as they believe that companies won't disclose objective information under the voluntary disclosures. Some experts believe that there must be voluntary initiative from the companies for environmental reporting. This will ensure a genuine effort from their side and would result in more conducive reports. But there is a fear among experts that this process may be very slow. So they want that there must be mandatory disclosures for the corporations as it will provide a level playing field for all the companies. Stocken [2000] argues that in absence of a mechanism to enforce verifiability, voluntary disclosures are not credible and therefore are ignored by the market.

Reasons for Mandatory Reporting

Mandatory approaches to reporting changing the corporate culture leaders to continue to innovate above minimum requirements .Below are the reasons for mandatory reporting.

i. Incompleteness of voluntary reports
ii. Comparability
iii. Non-disclosure of negative performance
iv. Legal certainty
v. Reduction of non-diversifiable market risk free rider problem
vi. Cost savings
vii. Standardization
viii. Equal treatment of investors

Reasons against Mandatory Reporting

i. Knowledge gap between regulators and industry
ii. One size does not fit all
iii. Inflexibility in the face of change and complexity
iv. Lack of incentive for innovation

v. Constraints on efficiency and competitiveness

Meaning of International Financial Reporting Standards

The International Financial Reporting Standards (IFRS) is regarded as a global GAAP and set of principles- based and globally accepted standard published by the International Accounting Standards Board (IASB) to assist those involved in the preparation of financial statements all over the world to prepare and present high quality, transparent and comparable financial statements

IFRS is an International Financial Reporting Standard issued by the International Accounting Standards Board (IASB), an independent organization registered in the United State of America (USA) but based in London, United Kingdom. They pronounce financial reporting standards that ideally would apply equally to financial reporting by public interest entities worldwide.

IFRSs as defined in Standards

Paragraph 7 of IAS 1 Presentation of Financial Statements defines IFRSs as comprising:

a) International Financial Reporting Standards
b) International Accounting Standards
c) IFRIC Interpretations
d) SIC Interpretations

It should also be noted that the definition of IFRSs was amended after the name changes introduced by the revised IFRS Foundation Constitution in 2010.

Objectives IFRS

The following are the major objectives (among others) and importance of introducing IFRS (Fowokan, 2011):

1. To develop a single set of high quality understandable and enforceable global accounting standard that require transparent and comparable information in financial statements;
2. To help participants in various capital markets (investors, stockbrokers etc) across the globe to understand financial statements;
3. To work actively with the national standard setter to bring about convergence of national accounting standards;
4. IFRSs are designed for adoption by profit-oriented entities.
5. IFRSs require that financial statements (FS) give a true and fair view of the financial health of entities.

Requirements for issuing IFRSs

In developing IFRSs, the IASB follows its due process requirements. Under the IFRS Foundation Constitution, the publication of an exposure draft or an IFRS (including an International Accounting Standard or an Interpretation of the Interpretations Committee) requires approval by:

a) nine members of the IASB, if there are fewer than sixteen members
b) Ten members of the IASB, if there are sixteen members.
c) Other decisions of the IASB, including the publication of a discussion paper, require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.

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Compliance with IFRSs

Paragraph 16 of IAS 1 requires:

1. An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.
2. When a Standard or an Interpretation specifically applies to a transaction, other event, or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation. (IAS 8.7).

Theoretical review

There are three theories of interest to this study, positive accounting theory, political economy theory, legitimacy theory, the beneficiaries' theory, and organizational theory.

Positive Accounting Theory

Social and environment disclosure is a topic that has gained interest of many researchers from various theoretical perspectives. The most popular perspective is Positive Accounting Theory from Watts & Zimmerman (1986 Positive Accounting Theory (PAT) is an expression of neo-classical economic theory. Fundamental to it is a belief in rational choice theory, that is, material self-interest usually referred to as opportunistic behavior as the basis for all economic activities. Therefore, in Positive Accounting Theory (PAT), self-interest (opportunistic behavior) is the reason for the choice of accounting methods and techniques as well as policy decisions. In PAT, the firm (organization, company or whatever) is described in terms of a collection of contracts – a nexus of contracts. Contracts are necessary in order to get self-seeking individuals to agree to cooperate. For example, there are contracts with managers, suppliers of capital and employees (including the managers). The contracts are necessary to get individual parties to act to maximize the wealth of the owners (shareholders). However, there will be contracting costs associated with the contracts, for example, costs of negotiating with and maintaining and monitoring the performance of the parties involved. PAT holds that firms will seek to minimize the contracting costs and this will affect the policies adopted, including the accounting policies (Graffikin, 2007). Watts and Zimmerman (1986) argue that the objective of positive accounting theory is to describe, explain and predict accounting practice of managers. So it will be clear which firms publish certain information like corporate disclosure. The positive accounting approach says nothing about which method of reporting should be used as a positive theory is based on empirical information and is not normative

Political economy theory

The political economy accounting theory was derived in 1990 from parker writings based on social and environmental accounting literature. According to parker writing, the existence of an organization is dependent of the general support of society. If it is observed that an organization has been involved in unfavorable social activities, the society avoids confirming that organization and this leads to its destruction. Also the social and environmental disclosure is used as a management tool in face of social and political pressures instead of informing stakeholders (Parker, 2005).

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Legitimacy theory

This theory has been derived from the political economy paradigm and focuses on this assumption that an organization should reserve its social role through responding to society requirements and giving the community what it wants. The companies increasingly try to show their positive operations to social activities outstandingly, in order to achieve legitimacy and show favorable image of their company. In past, profit maximization was a good benchmark for the legitimacy of organization, however given changing expectations in societies in recent decades, the standard of legitimacy in organizations is that they avoid harming environment or compensate incoming damage. This theory is widely used to explain social and environmental information reporting motive. More the social pressure on companies, more they need to give their activities legitimacy in front of society and more they use such tools as social and environmental information disclosure.

The beneficiaries' theory

This theory can be used to explain voluntary disclosure, firstly because this theory distinguish between the beneficiaries and society issues and secondly because this theory suggests an application framework to evaluate the social responsibility of the company using social and environmental information disclosure. Since according to ethical directory of beneficiary theory, the beneficiaries have the right to receive information about organization activities and investors as the beneficiaries pay attention to annual reports, the companies disclosed social and environmental information in response to information request of stakeholders.

Organizational theory

This theory investigate the way organizational structure and activities formed through social, political and cultural powers which encompasses this institutions are the organization should interact to their environment and its different institutions to stabilization. According to this theory, organizational activities limit through different external pressures and organizations should response to external request and society expectations according to the assumptions of this theory.

Empirical Review

In response to the environmental problems, Nigeria's government has enacted the following regulations, which are aimed at mitigating impact of these problems: Forestry Act 1958, Antiquities Act 1958, Territorial Waters Decree 1967, Oil in Navigable Waters Decree 1968, Petroleum Decree 1969, Quarries Decree 1969;Sea Fisheries Decree 1971, Land Use Decree 1978, National Environmental Protection (Management of Solid and Hazardous Waste) Regulations 1991, Guidelines and Standards for Environmental Pollution Control in Nigeria 1991, Environmental Impact Assessment Decree 1992, Water Resources Act 101 of 1993, and Minerals and Mining Act 1999.

In addition, Nigeria is a signatory to a number of international multilateral conventions, which are related to the environment (Aina, 2010).Some of these include the following: Convention of Biological Diversity 1992; Montreal Protocol on Substances that Deplete the Ozone layer; United National Framework Convention on Climate Change (Climate Change Convention) (1992) Stockholm Convention on Persistent Organic Pollutants (POPs) among others . However, environmental regulations in Nigeria came to the forefront following national public outcry as result of illegal dumping of toxic waste in Koko, South west Nigeria by an Italian vessel in 1987. This necessitates the Federal government to create the Federal Environmental Protection Agency (FEPA) in 1988, and subsequently, each of the 36 states of Nigeria was encouraged by FEPA to establish its own environmental protection agency known as State Environmental Protection Agency (SEPA). Each of the state's environmental protection agency enacted their own laws and regulations. Since the return of democracy to Nigeria in 1999, there has been a renewed interest in environmental management and protection, which culminated in the establishment of the Federal Ministry of Environment and State Ministries of Environment at the state levels in 1999.

The Federal Ministry of Environment is the apex policy organ for all environmental policies in Nigeria. It ensures that all Local, States and Federal agencies as well companies that operate in Nigeria, comply with all extant regulations. The regulations that govern various human activities on the environment are vested on many agencies under the ministry. The main agencies for the enforcement of environmental regulations are the National Environmental Standards and Regulations Enforcement Agency (NESREA), which was established in 2007 to replace FEPA; and the National Oil Spill Detection and Response Agency (NOSDRA) established in 2009 as a response to heightened agitation to remedy and stop the environmental damage of oil production in Niger Delta.

METHODOLOGY OF STUDY

The study is based on the secondary data collected from sources like websites, trade publications, books, and articles in newspapers, magazines, and journal.

FINDINGS

There is no international accounting standard which exclusively deals with environmental issues in the corporate annual reports. The analysis of IAS/IFRS revealed that no international standard is exclusively dedicated to the provisions of such information but there are numerous direct and indirect remarks on the topic of environmental accounting in the different accounting standards. For instance, IFRIC 3 deals with emission rights .IFRS 8 also define reportable segments. IAS 38 deals with the impairment of emission rights. IAS 32, IFRS 7 and IAS 39 deal with presentation, disclosure, and recognition and measurement of financial instruments. IFRS 6 deals with exploration for and evaluation of mineral resources. IAS 37 deals with provisions, contingent liabilities and contingent assets.

In Nigeria some companies do not report environmental information at all because of lack of accurate data, lack of accountability among companies most especially the multinational oil corporations in the Niger Delta area has led to severe animosity between local inhabitants and these companies. Oil companies from overseas continue to make huge profits while local people remain impoverished and face severe environmental degradation. This animosity culminated in 2006 when militants kidnapped two foreign oil workers. That same year, the Nigerian National Assembly ordered Shell Petroleum (an Anglo-Dutch corporation) to pay $1.5 billion in compensation for environmental degradation. The weakness in the institutional set up of environmental regulations leads to corruption and special interest groups often try to use the regulatory process to advance their own economic position. For example, since 1984, the Federal Government continues to exert both regulatory and administrative pressure on oil companies operating in the Niger Delta region to stop the flaring of gas, yet gas flaring continues and polluters appear content to pay the penalty. It was also noted that the lack of technical capacity among the staff responsible for the enforcement of the regulations as well as inadequate institutional framework; both legal and administrative, which has made regulatory enforcement in Nigeria inefficient and ineffective.

Despite the shortcomings identified above, our findings also revealed that Mandatory reporting presents several advantages such as the creation of standardized and comparable measures that enable benchmarking and best practices among companies complying with IFRS/IAS in Nigeria.

CONCLUSION

From the discussion above, it was clear that environmental benefits arising from complying with IFRS/IAS by some companies in Nigeria is minimal because regulatory constraints concerning environmental disclosures such as lack of data, capacity of staff and ineffective framework for National enforcement among others. Also aside from complying with IFRS/IAS, Incentives and enforcement was also identified as a factor for full convergence and comparability among companies.

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