

# MORE CORPORATE ENVIRONMENTAL REPORTING IN SOUTH AFRICA?

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## Abstract

The environment is establishing itself as an important business issue. There are no laws or regulations to enforce environmental disclosure or reporting in South Africa, yet it is on the increase. However, the reporting tends to be biased and general in nature. The amount and the quality of environmental reporting will only be improved if made compulsory. This will only be feasible if the relevant parties are in favour. A survey was done amongst the preparers and auditors of financial statements as well as others, to establish whether they would be willing to support additional environmental reporting. A large number of individuals are indeed in favour of more compulsory corporate environmental reporting.

## Key words

*Environmental accounting*

*Environmental reporting*

*Environmental disclosure*

*Green accounting*

## 1. INTRODUCTION

The environment is increasingly discussed within the context of various disciplines. The corporate sector is no exception and the environment is establishing itself as an important business issue. The proliferation of reports and supplements in the financial press dealing with environmental issues bears testimony to this fact (for example: Financial Mail 1992; Finansies en Tegniek 1994; Financial Mail 1994; Gous 1994:6). The business community find themselves under increasing pressure from environmental groups and the community at large to conduct themselves in a more environment-friendly manner. Larger corporations may also be influenced by national and international conventions and programmes. Agenda 21, the non-binding plan of action for sustainable development of the United Nations, is an attempt to influence as wide an audience as possible to embrace environmentally

sound policies (Wynberg 1993). In South Africa, the Reconstruction and Development Programme (RDP) recognises environmental concern as an important constraint to indiscriminate development (Ministry in the office of the President 1994).

Environmental disclosure is one of the issues in the corporate environmental debate. Shareholders, the suppliers of foreign capital, the government, employees, customers and potential customers, as well as the general public all claim a right to environmental information [Canadian Institute of Chartered Accountants (CICA) 1993:1-2]. Some of these groups are only interested in environmental information to enable them to assess the financial impact of the corporation's environmental conduct, whilst others may have moral motives or watchdog motives. Whatever the motives of those who demand the information or those who disclose the information may be, the fact remains that environmental disclosure is on the increase in South Africa (Steyn and Vorster 1994:44).

Due to a lack of legislation in South Africa, disclosure is done voluntarily. Many companies will, therefore, continue to refrain from disclosure or concentrate on positive aspects while negative aspects are withheld (Bogiages and Vorster 1993:53; Deegan and Rankin 1995:13,14). If users of financial statements expect negative environmental information to be withheld, the value of the disclosed information to the users is limited. This is because it would be difficult to assess the completeness of disclosures and it becomes little more than a public relations exercise. Should some form of environmental disclosure be made compulsory, more information will become available and the value of the disclosures currently made could be increased, from a user perspective.

Environmental disclosure could be made compulsory, amongst others, by amending the Companies Act or by issuing a statement of generally accepted accounting practice (GAAP). Regulation will, however, only be feasible if a need is perceived by the community. The question therefore arises whether the community (or groups within the community) wants more corporate environmental disclosure or whether the status quo should be maintained.

## **2. REASONS FOR DISCLOSURE**

There could be many reasons for a corporation to disclose environmental information, just as there could be many reasons for non-disclosure. The reasons for disclosure could be divided into moral reasons and pragmatic reasons. The management and directors of a corporation may disclose certain information not because they feel that it is right to do so, but because they perceive some advantage to be gained from disclosure. These pragmatic advantages of disclosure could for

instance be to gain a competitive advantage or to placate shareholders. A few reasons for disclosure could be both moral and pragmatic in nature. Compliance with legislation is a case in point. Other reasons for disclosure or non-disclosure are included in Table 1:

**TABLE 1:**

**REASONS FOR VOLUNTARY DISCLOSURE OR NON-DISCLOSURE**

**Disclosure:**

- If not done voluntarily it will become mandatory.
- To legitimise current activity.
- To distract attention from other areas.
- To develop corporate image.
- To build up expertise in advance of regulation.
- Positive impact on share price.
- Reduction in perceived (company or information) risk.
- Political benefits.
- Competitive advantage.
- Shareholders' and other stakeholders' right to know.
- To explain expenditure patterns.
- The desire to tell people what the company has done/achieved.
- To forestall disclosure by other parties.

**Non-disclosure:**

- Obverse of the above.
- No need/motivation to do so.
- Wait and see.
- Cost.
- Data availability (and related costs).
- Secrecy.
- Absence of demand for the information.
- Absence of a legal requirement.
- Never thought about it.
- Prioritising areas for disclosure.

Source: Gray 1993:211

The Canadian Institute of Chartered Accountants (1993:3-8) mentions amongst others peer pressure and pressure from the capital markets as further reasons to make environmental disclosure. Peer pressure would be felt if most of the players in a corporation's industry already make disclosures. In such circumstances it may be prudent to conform to industry norms. The capital markets remain important to any corporation as a future source of funds. The emergence of ethical investment funds could result in increased disclosure of environmental information to ensure future access to those funds as well.

One of the moral arguments regarding disclosure is that of externalities. Corporations use natural resources such as rivers and fresh air without properly accounting for the costs involved (Estes 1976:103). These costs are external to the corporation and are paid for by others and are therefore called externalities (Chua 1990:2). If a corporation pollutes the air, this may lead to respiratory ailments in the population of a nearby township. The resultant medical bills are paid by the community and not the corporation. If the polluter-pays principle were to apply, the corporation would be forced to pay and the increase in costs will be passed on to customers. The corporation could be made to pay, amongst others, by introducing legislation that forces it to treat noxious gasses and only to emit harmless gasses. In this way the consumers would pay the full price for products and would not be subsidised by the nearby community. According to free-market economic theory, the incorrect pricing of products (because of externalities) will lead to a mis-allocation of resources in the economy. If, according to these theories, resources are mis-allocated, the result will be inefficiencies. When inefficiencies exist, the maximum benefit is not extracted from the limited resources available to society. Inefficiencies are, therefore, to the detriment of society as a whole. The logical conclusion of this line of argument, would be to agree with Rubenstein (1992:31) that the goal should be to produce financial statements which measure the ability of a corporation to produce goods and services after accounting for environmental costs.

Although there could be many reasons for environmental disclosure, accountability will be adopted as a theory for the purposes of this paper. A case for accountability in preference to other theories was made by Gray (1994). He argues (1994:26) that an accounting theory should be able to encompass all accounting, not just financial accounting, and that accountability theory can accommodate this. Accountability assumes a principal, who gives instructions to an agent, who has the responsibility to account for his actions by reporting to the principal. Agents are, therefore, obliged to disclose the information principals require.

Accountability is acknowledged in the accounting framework of the International Accounting Standards Committee (IASC), which was also adopted by the South



African Institute of Chartered Accountants (SAICA 1990:14). Here, the accountability is restricted to matters financial, but Gray (1994:29-34) argues that accountability could be extended to include other issues. Society may be the principal who entrusts the managers and the directors of a company with responsibility for the interaction of the company with the environment (for example maintaining clean air, clean estuaries and sound environmental management principles). The managers and directors of the company are accountable and should report to the principal. Tozer (1992:22) and Sandborg (1993:57) conclude that the preparers of financial statements must incorporate a social/environmental dimension to achieve the degree of accountability increasingly demanded.

### **3. CURRENT REPORTING REQUIREMENTS**

South African law has many provisions with the aim of dealing with environmental problems (Rabie 1992:83). However, despite the array of legislation there are no specific disclosure requirements. The new government's major initiative, the Reconstruction and Development Programme (RDP), did mention environmental disclosure twice when it was still an ANC election manifesto (ANC 1994:39,41). These references, however, fell by the wayside when it became official policy of the government of national unity (Ministry in the office of the President 1994). Legislation regarding environmental disclosure is virtually non-existent anywhere in the world (Gray 1993:204). The only known exceptions are legislation in Norway, the USA and Canada (Gray 1993:205). In spite of the lack of specific legislation, there are circumstances where changing perceptions may make disclosure necessary (Collier *et al.* 1993:7).

South African generally accepted accounting practice (GAAP) does dictate some environmental disclosure where financial implications are involved or could arise. Contingent liabilities, provisions (for instance for rehabilitation, waste disposal and recycling commitments) and environmental catastrophe reserves are examples. Fixed asset valuation, depreciation policy and inventory valuation may also be influenced by environmental issues, and may therefore influence the financial statements, without necessarily being separately disclosed. These influences can be in the form of asset value impairments due to new environmental legislation that outlaws existing processes and products. Where phased introductions are employed, the remaining lifetime of a fixed asset may be reduced.

The preparers and the auditors of financial statements should consider, amongst others, the above points specifically before finalising the accounts and expressing an opinion (IFAC 1995:8). Auditors may find that the environment impacts indirectly on the financial statements, yet the amounts involved may be material (Colbert and Scarbrough 1993:32).

#### **4. CURRENT REPORTING**

Several surveys have been undertaken to determine the level of environmental reporting by the South African business community. Some typical results are:

- In a study by Clulow (1991:107) 60% of the companies in the survey made no mention of the environment in their annual financial statements whatsoever.
- In a study by Savage (1994:3) 63% of the companies in the survey mentioned the environment in some form.
- In a study by Steyn and Vorster (1994:24), only 10% of the companies in the survey disclosed their environmental objectives.

Savage (1994:3) notes that environmental reporting "tends to be ... partial and unsystematic". Bogiages and Vorster (1993:53) conclude that although environmental reporting could be regarded as limited in the annual reports of European and USA companies, South African companies lag behind the practices in those countries. As mentioned in the introduction, environmental reporting is on the increase, but can still not be regarded as satisfactory (Steyn and Vorster 1994:44).

#### **5. EMPIRICAL STUDY**

##### **5.1 Objective**

The objective of the study was to measure the willingness of individuals from various groups to support more comprehensive corporate environmental reporting. In particular, the views of the preparers, the auditors and the users of financial statements were to be explored.

##### **5.2 Methodology**

The willingness to support more comprehensive disclosure was tested by way of a questionnaire. According to accountability theory, the views of principals are the most important ones to consider. The principals in this context would be the users of financial statements. The views of users are so important because principals have the right to information. However, should principals want or need a certain type of information, the only way to ensure that they get it consistently, would be to amend existing laws/regulations or to introduce new ones. If this is not done, environmental disclosure will continue to be piecemeal, inconsistent and incompatible (see

sections 1 an 4). The introduction or amendment of laws and regulations involves a political process, where an effectively organised lobby-group could sway the ultimate decision. Therefore, in order to get a clear picture of the attitudes of the most important other parties involved (other than users), the agent (management including directors) had to be questioned, as well as the auditors of financial statements, who act as a referee regarding information given to principals.

The questionnaire was to be sent to auditors, management of large companies and users of financial statements. The three groups represent the preparers, the auditors and the users of financial statements. In accountability terminology they can be called the agents, the referees and the principals.

Auditors were defined as individuals registered with the South African Institute of Chartered Accountants (SAICA) as members in public practice. Managers were defined as directors of the top 300 companies in South Africa as defined by the 1994 Financial Mail top companies survey. The Financial Mail ranking is based on net asset value and excludes mining and financial companies.

Users of financial statements could be a diverse group (SAICA 1990:09), including current and potential investors, employees, money lenders, suppliers and other creditors, customers, government and other institutions and the public. Financial statements could also be used for a diversity of purposes (SAICA 1990:09). Because of this diversity, it is difficult to identify users in such a way that all viewpoints are considered. An overriding qualification for users to be included in the survey, was that they should be "financially aware", otherwise they would not have a frame of reference for the purpose of completing the questionnaire. It was therefore decided to include members of various professional accounting bodies as well as stockbrokers. The professional accounting bodies include SAICA (only those members registered as not being in public practice), CIMA (members resident in South Africa), ACCA (members resident in South Africa), and members of the Institute of Internal Auditors of South Africa. The stockbrokers are those registered at the Johannesburg Stock Exchange.

The questionnaire was tested by 17 individuals representing the groups identified, as well as experts on questionnaire development. In addition, a pilot run of 30 questionnaires, 10 to each of the three groups, was undertaken. Numerous changes and improvements were made based on the feedback.

The representation of all users of financial statements by the respondents defined as



users was re-assessed after the responses and the response rates (see Table 4) were available. It was decided that, due to the large number of individuals from the accounting profession classified as users and the small number of other users, the respondents did not represent users of financial statements adequately. The data obtained do, however, remain of interest and reference is henceforth made to "others" instead of "users".

### **5.3 The development of the questionnaire**

There seems to be no consensus amongst companies regarding the content and the method of presentation of environmental information. This is reflected in the wide range of practices used by companies. Nevertheless, Christophe and Bebbington (1992:288) believe that there is no need to wait for "perfect" information for the development of new methods of environmental disclosure, as even traditional financial statements have many shortcomings. To find an objective view of possible future requirements, the recommendations of certain institutions may indicate some direction. The United Nations (United Nations 1991:19-21), the Canadian Institute of Chartered Accountants (CICA 1993:19-20) and the Institute of Chartered Accountants of England and Wales (ICAEW 1992:37-66) have produced recommendations regarding environmental disclosure.

Environmental disclosures could be narrative and/or quantitative in nature. The quantitative information could be financial or non-financial in nature.

The first few questions (up to question 6) had the aim of surveying the general feeling of respondents regarding additional environmental disclosure. Respondents were asked whether they wanted additional disclosure to be of a financial or a non-financial nature and whether they wanted it to be voluntary or compulsory. In addition, their views on whether it should form part of the annual financial statements or not, were sought.

The rest of the questionnaire asked respondents whether they supported specific types of disclosure. These specific disclosures were based on the recommendations of the organisations mentioned above.

Table 2 shows a summarised version of the United Nations recommendations regarding environmental disclosure, with a reference to the question that tested the views of respondents of the specific recommendation.



**TABLE 2**

**SUMMARISED UN RECOMMENDATIONS ON ENVIRONMENTAL DISCLOSURE WITH REFERENCE TO THE RELEVANT QUESTION IN THE QUESTIONNAIRE**

<b>United Nations</b>	<b>Question</b>
<b>Directors' report</b>	
■ Environmental issues pertinent to the company and industry	7a
■ Environmental policy	7b
■ Improvements since adoption of policy	7f
■ Emission targets and performance	7d,e,f
■ Response to government legislation	7e
■ Environmental legal issues the company is involved in	7n
■ Effect of environmental issues on capital investment and earnings	7m
■ Environmental costs charged in income statement	7j
■ Environmental costs capitalised	7k
■ Accounting policies	7h
■ Monetary amounts of liabilities, provisions, reserves	7i
■ Monetary amounts of contingent liabilities	7i
■ Tax effects	-
■ Government grants received	7l

Source: United Nations 1991: 19-21

The recommendations of the three bodies overlap, but not all types of disclosure are recommended by each of the organisations. Most of the United Nations recommendations are also recommended by the other two bodies. The specific questions in the questionnaire that did not deal with disclosures recommended by the United Nations, are 7c, 7g, 7o, 7p, 7q, 7r and 7s. These questions are based on recommendations of the ICAEW and/or the CICA. Table 3 show the questions and the appropriate references.

TABLE 3

**QUESTIONS REGARDING SPECIFIC DISCLOSURES NOT DEALT WITH BY THE UNITED NATIONS WITH REFERENCES TO ICAEW AND CICA RECOMMENDATIONS**

Number	Question	Reference, page no.
7c	management processes and arrangements to implement the environmental policy	ICAEW,39; CICA,20
7g	targets and performance thereon on a site-by-site basis	ICAEW,47;CICA,20
7o	environmental awards/commendations received	ICAEW,41
7p	voluntary environmental projects including programmes with employees, customers, suppliers	ICAEW,39;CICA,20
7q	information to enable the user to assess the completeness of the environmental information disclosed	ICAEW,42
7r, 7s	independent third party attestation of environmental disclosures	ICAEW,44;CICA,20

Apart from the more conventional type of disclosure mentioned thus far, some other initiatives are noteworthy for the fact that they are innovative and they may well be at the leading edge of environmental reporting. However, they often have inherent practical problems in their application. Three approaches, which were developed with the aim of accounting for sustainability, were identified. These are the inventory approach, the sustainable cost approach and the resource flow approach (Gray 1993:291-296). The inventory approach (question 1 of second section) entails a separate statement of changes by category in the natural resources under the control of the organisation. In the sustainable cost approach (question 2 of second section), costs required to correct any damage done to the biosphere by an organisation are deducted from profit in the normal Income Statement. The resource flow approach (question 3 of second section) again entails a separate statement detailing, in this case, the resources flowing into the organisation, those flowing from it, and the losses or leakages from the process.

The questionnaire (see Annexure 1) aims to cover the environmental disclosure possibilities identified above. Respondents were requested to state whether they supported each kind of disclosure or not. Respondents had five choices, including "uncertain or do not know". This configuration allowed for the recording of a degree of agreement or disagreement.

#### **5.4 Questionnaires sent and responses received**

The number of questionnaires sent and received back is contained in Table 4.

**TABLE 4**

##### **SUMMARY OF MAILINGS AND RESPONDENTS**

	Population	Mailed to	Respondents	Reps/Mail%
<b>Auditors</b>	4 296	1 432	164	11,5%
<b>Managers</b>	1 845	1 845	115	6,2%
<b>Others</b>	10 820	3 728	232	6,2%
Consisting of:				
Chartered Accs	8 274	1 182	74	6,3%
CIMAs	891	891	111	12,5%
ACCAs	104	104	10	9,6%
Internal Auditors	1 213	1 213	29	2,4%
Stockbrokers	338	338	8	2,4%
<b>TOTALS</b>		<b>7 005</b>	<b>511</b>	<b>7,3%</b>

It is clear from Table 4 that the response rate of the Internal Auditor and the Stockbroker subgroups were substantially below that of the others. This should be borne in mind when conclusions are drawn on the whole population of "others".

There could be bias in the responses to a postal survey, because of the tendency of individuals who are knowledgeable or enthusiastic about a subject to respond to a questionnaire on the subject. Less knowledgeable or enthusiastic individuals may be inclined not to respond. Future research will have to be done in order to determine the extent (if any) of this kind of bias. A positive aspect regarding the responses is that such a large number (511) of responses was received. Therefore, the views discussed hereafter are those of a large number of individuals.



## 5.5 Results

The first question had the aim of assessing whether the current requirements, as far as environmental disclosures are concerned, were regarded as sufficient. The question was put in the negative, and it was clear that, when compared with the responses to some of the other questions, it was misinterpreted by a large percentage of respondents. The question was therefore left out of Annexure 1.

The respondents were mostly in favour of more disclosure of environmental matters (see Figure 1). Of the three groups, "others" were most in favour of more disclosure, whether the measurement was taken as the average response or the percentage of positive to total responses (see Table 5). These two measures could differ if the number of uncertain replies is different for the categories.

More respondents were in favour of voluntary disclosure than of compulsory disclosure in all three groups. The differences were significant in the case of auditors and "others". The significance was tested on the basis of a chi-squared test at the 5% level. References to significance elsewhere in the text refer to the same chi-squared test.

"Others" were significantly more in favour of additional compulsory disclosure than managers and auditors. The fact that managers and auditors were significantly less in favour, was not unexpected, as managers and auditors could regard additional disclosure requirements as a burden that would, amongst others, entail additional risk factors.

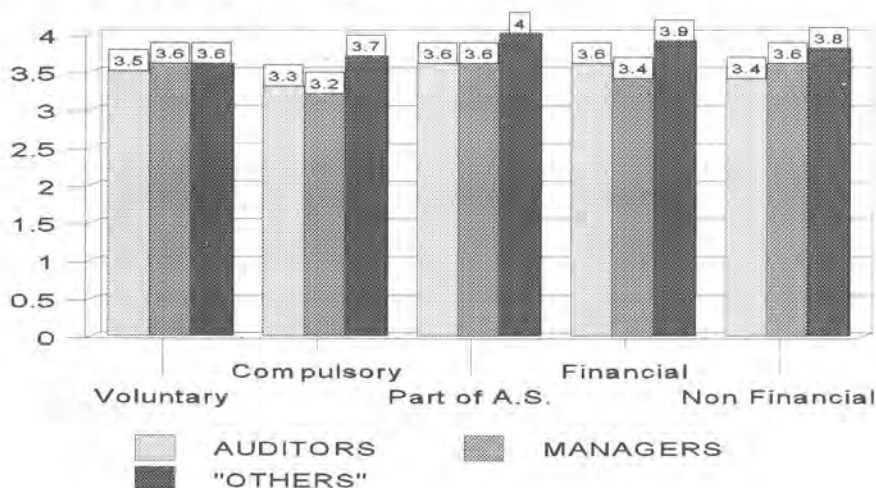
Even though the expectation was that managers and auditors would not be very positive about additional disclosure, both groups agreed, on average, that more environmental disclosure of a voluntary and a compulsory nature was needed. More than 50% of the respondents in both groups were in favour of more voluntary disclosure, but just under 50% agreed with making the additional disclosures mandatory.

The respondents were strongly in favour of the idea that all environmental information should be disclosed in the annual financial statements of an organisation to ensure accessibility. In each group, at least two-thirds of the respondents agreed. The annual financial statements as a "one-stop-shop" for information regarding all the activities of a company seems to be a concept about which managers, auditors and "others" agree. "Others" were found to be significantly more in favour of disclosure in the annual financial statements than managers and auditors.

In the average column, 3 (Table 5) would indicate no bias, 5 would indicate that everyone answered strongly agree.

FIGURE 1

SUMMARY OF RESPONSES



1 - STRONGLY DISAGREE  
3 - UNCERTAIN  
5 - STRONGLY AGREE

2 - DISAGREE  
4 - AGREE

The results of the questions to determine whether the additional environmental disclosure should be of a financial nature or of a non-financial nature produced some interesting responses. All groups were, on average, in favour of more disclosure of both types, but auditors and "others" were more in favour of financial disclosure, whereas managers were more in favour of non-financial disclosure, although not significantly so. The difference in the preferences of the three groups could be explained by the fact that auditors feel more comfortable with financial information. They are familiar with that kind of information and they are used to interpreting it. Managers are mostly interested in managing processes and non-financial information is often the most appropriate type of information to use for that purpose. "Others", on the other hand, would not always be in a position to interpret non-financial information and are often interested in financial implications, especially if they are investors or suppliers (of goods/services and of foreign capital). In addition, the fact that "others" consist mainly of accounting professionals, should be borne in mind. Although all three groups of respondents were, on average, in favour of both types of disclosure, "others" again proved to be significantly more in favour than managers and auditors. In the case of financial disclosure, "others" were significantly more in favour than auditors, who were in turn significantly more in favour than managers.

TABLE 5

## SUMMARY OF THE EMPIRICAL STUDY

	Auditors Average	Auditors % positive	Managers Average	Managers % positive	Others Average	Others % positive
ENVIRONMENTAL DISCLOSURE						
2 More disclosure voluntary	3.5	65	3.6	63	3.6	66
3 More disclosure compulsory	3.3	48	3.2	49	3.7	62
4 Part of annual statements	3.6	71	3.6	69	4.0	81
5 More financial information	3.6	69	3.4	54	3.9	75
6 More non-financial	3.4	57	3.6	66	3.8	75
SPECIFIC DISCLOSURES						
7 Summary of all	3.5	63	3.4	56	3.7	69
ACCOUNTING FOR SUSTAINABILITY						
1 Inventory approach	3.5	58	3.2	43	3.6	66
2 Sustainable cost approach	3.5	59	3.2	43	3.5	58
3 Resource flow approach	3.1	41	3.0	31	3.4	53

The respondents were generally positive about the specific types of environmental disclosures mentioned in the questionnaire. There were some exceptions, though. Only the "others" group, on average, wanted environmental disclosure to be done on a site-by-site basis. They were, however, only marginally in favour in contrast to other specific disclosures where they were much more positive. The differences between the three groups were also not significant in this case. Furthermore, independent third party attestation of environmental disclosure was not popular with the respondents in the auditor and manager groups. Their responses were significantly different from those of the "others". The summarised results of the three specific types of disclosure that did not, on average, meet with the approval of all three groups are contained in Table 6.

The balance of the items in the questionnaire were accepted by most of the respondents, with the "others" group again being the most enthusiastic. The specific environmental disclosures that, on average, met with acceptance by all groups are summarised in Table 7.



**TABLE 6****SPECIFIC ENVIRONMENTAL DISCLOSURES NOT ACCEPTED BY ALL GROUPS OF RESPONDENTS ON AVERAGE**

	AUDITORS Average	MANAGERS Average	"OTHERS" Average
7g targets and performance site-by-site	2.9	2.9	3.1
7r independent third party attestation of some environmental disclosures	3.2	2.9	3.4
7s independent third party attestation of all environmental disclosures	2.8	2.5	3.1

Since third party attestation of environmental disclosures was not popular with the respondents, the fact that it was accepted that information should be disclosed to enable the user to assess the completeness of environmental information in the annual financial statements, is noteworthy. "Others" were again significantly more in favour of this type of disclosure than respondents in the other two groups. It was mentioned in the introduction that companies tend to concentrate on positive aspects when reporting on environmental matters. Third party attestation would be a means of ensuring unbiased reporting, but information to enable the user to assess the completeness of information could take its place to a certain extent. Although the users will have no additional assurance that the reported environmental information is in fact correct, they will at least be assured that all (including negative) environmental information is reported.

The final part of the questionnaire dealt with accounting for sustainability. The views of respondents regarding three types of disclosure that could be regarded as at the leading edge of environmental disclosures were sought. The three types of disclosure were mentioned in section 5.3. The three groups were on average in favour of all three types of disclosure, with one exception. Managers were on average indifferent towards the resource flow approach. Using another measurement, that of percentage positive responses to total responses, less than 50% of managers were in favour of any of the three methods of accounting for sustainability. Less than 50% of auditors were also in favour of the resource flow approach. More than 50% of "others" supported all three methods in the section and more than 50% of auditors supported the inventory approach and the sustainable cost approach. The difference in the result of the two types of measure (average and % positive) is again due to the respondents who answered "uncertain or does not matter".

**TABLE 7**  
**SPECIFIC ENVIRONMENTAL DISCLOSURES ACCEPTED BY ALL**  
**GROUPS OF RESPONDENTS ON AVERAGE**

	Auditors Average	Managers Average	"Others" Average
7a a descriptive overview of the major risks and impacts of the organisation	3.8	3.8	4.2
7b the environmental policy of the organisation	4.0	3.9	4.2
7c management processes and arrangements to implement the environmental policy	3.6	3.5	3.6
7d measurable targets in physical units and monetary amounts based on policy	3.4	3.4	3.6
7e how targets were set	3.4	3.2	3.5
7f performance against targets and prior year comparative figures	3.5	3.4	3.8
7h accounting policies re environmental liabilities, etc	4.0	3.7	4.0
7i environmental liabilities, etc. established in the current period	3.8	3.5	3.9
7j environmental costs charged to operating expenses	3.5	3.1	3.5
7k environmental costs capitalised during the current period	3.7	3.4	3.8
7l government environmental grants received	3.9	3.7	3.9
7m likely effects of environmental policy on future capital investment and earnings	3.6	3.6	4.0
7n environmental litigation the organisation is currently involved in	3.9	3.7	4.1
7o environmental awards/commendations received	3.6	3.6	3.8
7p voluntary environmental projects	3.4	3.6	3.7
7q information to enable the user to assess the completeness of the environmental information disclosed	3.4	3.6	3.8

"Others" were the most positive group regarding the three types of accounting for sustainability, followed by auditors and then managers. "Others" were significantly more in favour of the inventory approach than the auditors and managers. In the case of the sustainable cost approach, managers were significantly less in favour than auditors and "others". Managers were also significantly less in favour of the resource flow approach than "others".

It is of interest to note once again that, whereas the inventory approach and the resource flow approach entail a separate statement, the sustainable cost approach envisages externalities to be deducted from income in the normal Income Statement. This could have the effect that few companies will be able to show a profit after these deductions. Nevertheless, all three groups were still, on average, in favour of the sustainable cost approach.

## **6. IMPLICATIONS**

The findings were all consistent with accountability theory. Although this does not in itself prove the theory, it serves as additional evidence to support it.

The possibility of bias in the responses due to the nature of a postal survey was mentioned in section 5.4. If it could be established, however, that the whole population (those who did not reply to the request included) are as positive about additional environmental reporting in the annual financial statements being made compulsory, as the respondents, then a process should be embarked upon to pass/amend laws/regulations. This is because according to accountability theory, users have information rights and laws/regulations will strengthen these rights and ensure compliance by agents. If users want the additional environmental information reported, this may not be enough, as the other players may be able to derail any attempted amendments during the political process. According to the survey, the other players in the political process (managers and directors as well as auditors) may, however, also be positive about additional environmental information.

The appropriate laws/regulations could be the Companies Act (Fourth Schedule) and/or a statement of generally accepted accounting practice (GAAP). The accountancy profession would be likely to play a major role in this process.

Should additional environmental reporting be made compulsory, a decision will have to be made regarding its content. The survey addressed this issue by way of the specific disclosures mentioned. The specific disclosures listed in Table 7 could form the basis for additions to laws or regulations.



## 7. CONCLUSION

More corporate environmental reporting would be welcomed by many South Africans. Those in favour of additional disclosure include preparers and auditors of financial statements, as well as others. Respondents to the questionnaire in all groups are mostly positive about additional environmental disclosures becoming compulsory and forming part of the annual financial statements. This could require additions to the Companies Act and/or a statement of generally accepted accounting practice dealing with environmental disclosure.

Respondents are furthermore by and large in favour of additional environmental disclosure of both financial and non-financial information.

Some form of compulsory environmental reporting may be in store for South African business enterprises. Voluntary environmental reporting in advance of legislation may be an attractive option for companies. This may counteract negative publicity or lead to the postponement of legislation regarding compulsory environmental reporting. Voluntary environmental reporting may also provide the pay-offs of positive image and competitive advantage.

## ANNEXURE 1 AUDITORS

*All answers will be treated as strictly confidential and will be used for statistical purposes only*

### QUESTIONNAIRE ON ENVIRONMENTAL REPORTING

- Please indicate the *most accurate option* by marking it with a cross.
- Please indicate your own personal views.

#### Willingness to support more comprehensive disclosure in the annual report

To what degree do you personally agree/disagree with the following statements?

*SA - Strongly Agree*

*A - Agree*

*U - Uncertain / Does not matter*

*D - Disagree*

*SD - Strongly Disagree*

2. More comprehensive disclosure of environmental matters is needed on a voluntary basis
3. More comprehensive disclosure of environmental matters is needed on a compulsory basis
4. All environmental disclosure should be published as part of the annual financial statements or an addendum thereto to ensure accessibility
5. More comprehensive environmental disclosure of financial nature is needed
6. More comprehensive environmental disclosure of non-financial nature is needed, such as descriptive information of information in physical units
7. The following items should be disclosed by organisations:

2	SA	A	U	D	SD
3	SA	A	U	D	SD
4	SA	A	U	D	SD
5	SA	A	U	D	SD
6	SA	A	U	D	SD

- a) a descriptive overview of the major environmental risks and impacts of the organisation
- b) the environmental policy of the organisation
- c) management processes and arrangements to implement the environmental policy
- d) measurable targets in physical units and Rand amounts, where applicable, based on the environmental policy e.g. emissions
- e) an indication of how the environmental targets were set and the legal requirement (if any) for each target
- f) performance against environmental targets and comparative figures (previous year)

a	SA	A	U	D	SD
b	SA	A	U	D	SD
c	SA	A	U	D	SD
d	SA	A	U	D	SD
e	SA	A	U	D	SD
f	SA	A	U	D	SD

g)	all targets and performance thereon on a site-by-site bases	g	SA	A	U	D	SD
h)	accounting policies for recording liabilities, provisions, contingent liabilities and catastrophe reserves	h	SA	A	U	D	SD
i)	Rand amounts of environmental liabilities, contingent liabilities and reserves established in the current period	i	SA	A	U	D	SD
j)	environmental costs (energy; waste handling, treatment and disposal; legal compliance; packaging, fines; rehabilitation; recycling, etc.) by category, charged to operating expenses during the period	j	SA	A	U	D	SD
k)	environmental costs capitalised during the period	k	SA	A	U	D	SD
l)	government environmental grants received	l	SA	A	U	D	SD
m)	likely effect of environmental policy on future capital investment and earnings	m	SA	A	U	D	SD
n)	environmental litigation the organisation is currently involved in	n	SA	A	U	D	SD
o)	environmental awards/commendations received	o	SA	A	U	D	SD
p)	voluntary environmental projects including programs with employees, customers, suppliers	p	SA	A	U	D	SD
q)	information to enable the user of the financial statements to assess the completeness of the environmental information disclosed	q	SA	A	U	D	SD
r)	independent third party attestation of some of the aspects agreed to above	r	SA	A	U	D	SD
s)	independent third party attestation of all the aspects agreed to	s	SA	A	U	D	SD

### Accounting for Sustainability

To what degree do you personally agree/disagree with the following statements?

In order to assist third parties to assess the impact that organisations have on the environment:

- The natural resources under the control of the organisation along with the changes therein during the reporting period should be disclosed by category in a separate statement (inventory approach).

1	SA	A	U	D	SD
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- The cost that would be required to correct damage done to the biosphere by organisation during the reporting period should be deducted in the Income Statement (sustainable cost approach).

2	SA	A	U	D	SD
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- All resources flowing into the organisation, those flowing from it and the losses from it and the losses or leakages from the process should be disclosed in a separate statement (resource flow approach).

3	SA	A	U	D	SD
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