

THE ROLE OF SUSTAINABILITY ACCOUNTING IN BRIGDING THE GAP OF UNDERDEVELOPMENT IN THE NIGER DELTA, NIGERIA

Oporiopo Michael Godknows, Ph.D.

University of Africa, Toru-Orua, Bayelsa State, Nigeria

mgodknows37@gmail.com

ABSTRACT

The objective of the study is to ascertain the role of sustainability reporting in an entity. Sustainability is a relatively new concept that reports or accounts for the economic, environmental and social dimension of organizational activities, product and services to critical stakeholders. It focuses on the impact of organization activities on the immediate environment. The concept of sustainability reporting is synonymous with green accounting, sustainability Accounting, environmental accounting, sustainability development and triple bottom line (TBL). Sustainability Reporting emanated from the increasing quest for a set corporate governance, increasing interest of government, increasing interest of financial market, the growing expectation of corporate social responsibility from entities and the need to reform corporate governance values. The major challenges of sustainability Accounting are; lack of legal framework and generally acceptable standard and the low awareness of the concept among the citizenry. It has been recommended that International Federation of Accountants (IFAC), International Accounting Standard Board (IASB), United Nations Environmental Programme (UNEP) and other international organization should expedite action in developing a standard framework that will be globally acceptable. There should be enlightenment campaign on the role of sustainability accounting by government, nongovernmental organization and civil society.

INTRODUCTION

BACKGROUND TO THE STUDY

In view of the geometrical increase in environment pollution, depletion of the ozone layer, cost of energy, gas emission and the society's expectation of corporate social responsibilities, the concept of sustainability was developed. Sustainability Accounting is a relatively new concept that deals in the reporting of economic, environmental and social activities of an entity (Hyroslava and Bekova: 2013).

The concept of sustainability is hinged on three pillars: traditional accounting, environmental accounting and corporate social responsibility. The traditional accounting explains the economic activities of an entity to stakeholders and other members of the public while environmental Accounting deals with the accountability of its activities and impact to stakeholders. The corporate social responsibility is the social milieu of sustainability which deals in the expectation of society from entities. It is on this note that scholars have opined that sustainability accounting is rooted on Management accounting and sustainability reporting. Management Accounting is a decision support system which explains organizational performance to management and stakeholders. On the other hand, sustainability reporting is synonymous with Triple Bottom Line (TBL) Sustainability Accountability, and Green Accounting (Huyen: 2024). Triple Bottom Line relates to the concept of sustainable development. IFAC (2004) defined sustainable development as 'the development that meets the needs of current generation without compromising the ability of future generation to meet their own needs'. It could be inferred from the definition that sustainability encourages the role of policy makers and chief executive officers at all levels to sustain or maintain quality performance and competitiveness over time.

Sustainability Accounting measures the performance of an entity in line with the mission statement of sustainable development. Sustainability also concerns itself with the accountability of its activities to stakeholders, provides relevant information to management for decision making and adopting

the appropriate principles in reporting the impact of business activities to management and business environment (Hyroslava and Bekova: 2013). They noted further that sustainability accounting and sustainability reporting cannot be separated from each other. It is on this premise that the Global Reporting Initiative (GRI) was established in 1997 (GRI: 2004). The Global Reporting Initiative (GRI) was the brainchild of a non-governmental organization, Coalition for Environmentally Responsible Economies (CERES) in United States and the United Nation Environmental Programme (UNEP). The mission statement of GRI is to provide the framework for high quality utilitarian standard that is globally acceptable for sustainability reporting. The goal of the body has been achieved over the years because the framework has received global acclaim and support from government, non-governmental organization and civil societies. The utilization of GRI framework is voluntary and not mandatory. The focus of the guidelines is to enable organizations to objectively report on their economic, environmental and social perspective of their activities, products and services to the public. The principles of the guidelines are encapsulated in transparency, inclusiveness, auditability, comparability, clarity, timeliness and sustainability context.

However, there are some key indices that have enhanced the application of sustainability reporting locally and globally which include: the crave for a new set of corporate governance culture; the increasing interest of government in sustainable reporting; the interest of stock exchange; the emergence of new generation of accounting; the geometrical expansion of globalization, the growing expectation form entities; the measurement of performance in line with sustainable development initiative; the demand of emerging economies; and the reformation of corporate governance norms among others.

The Global Reporting Initiative guidelines is not a set of code of principle for organizations to conduct its operation. It is neither a measuring rod for performance nor a management system.

The GRI framework is intended to promote comparability of sustainability reports, enhance bench marking and assists. Organization in preparing and presenting its economic, environmental and social operation fairly.

The objective of the study is to examine the relevance of sustainability reporting in bridging the gap of underdevelopment in the Niger Delta.

STATEMENT OF THE PROBLEMS

Sustainability Accounting and reporting is an evolving discipline that is fought with many challenges, notably:

Lack of legal and standard framework in accounting for environmental cost. Hithto, there is no generally acceptably recognized standard and legal basis for preparing and presenting the impact of organizational activities on its environment to stakeholders. Other transaction and organizational activities, products and services have standard framework of reporting and disclosure where necessary but green accounting does not have.

The awareness of the concept of sustainability reporting by the environment is relatively low. Many communities and critical stakeholders are not acquainted with the concept of green accounting and its impact on the environment.

The general objective of the study is to ascertain the role of sustainability accounting in accounting for the economic, environmental and social impact of organisation's activities in financial statement.

METHODOLOGY

The researcher used descriptive statistics to elicit vital facts from respondents. The researcher also used both primary and secondary data in finding answers to the vexatious questions of time, location and the type of impact of entity's activities in the environment. The researcher used purposive sampling technique in extracting vital information from select companies in Bayelsa state, Nigeria. The companies were selected based on their nature of business from the Gbarain NLNG gas

gathering project in Obunnaya, Yenagoa. The choice of those companies was based on their perceived knowledge in sustainability reporting.

REVIEW OF RELATED LITERATURE

The sigma group (2003) observed that sustainability accounting is an offshoot of traditional Financial Accounting with the inclusion of social, economic and environmental impact of activities. It is the systematic analysis and integration of the attendant benefits and cost of the economic, social and environmental, impact of organizations performance.

It is on this premise, the Sigma Group (2003) defined Sustainability Accounting as the generation, analysis the use of monetarised environmental and socially related information in order to improve corporate environmental, social and economic performance. It could be inferred that sustainability Accounting entails the measurement of economic, social and environmental impact of activities emanating from entity's operations. Sustainability is an expansion of the subsisting financial accounting framework encapsulated in international accounting standard regulations and company law. In the framework of sustainability accounting is also the tenets of Generally Accepted Accounting Practice (GAAP) which defines accounting practice in its entity.

In the same vein, SASB (2017) defined sustainability Accounting as "the measurement, management and reporting of such corporate entities. Sustainability Accounting Standard Board (SASB) noted that sustainability. Accounting should be viewed in terms of the value chain to the society. SASB asserted further that sustainability is the corporate activities that maintain or enhances the ability of company to create value over the long run". This definition is anchored on the value chain arising from organizational impact. The emphasis is not only on the short run effect of operational activities but also on the long run, the analogy is synonymous to the perspective of the Bruntland report which defined sustainability in terms of sustainable development. The Bruntland report defined sustainability as that development that meets the needs of the present generation without compromising the ability of future generation to meet their own needs. Sustainability is not just an accounting concept that dwells on present benefits and cost of economic, social and environmental impact of entity's activities but development that transcends present generation with its attendant value chain. SASB (2017) opined that the hallmark of sustainability accounting is hinged on the environment, social, capital, human capital business model and innovation and its impact arising from its performance. It is the identification of the benefits and cost of the impact from environmental, social and economic activities. The identification of the impact will assist management to develop sustainable opportunities and nip sustainable challenges in the bud. Sustainability accounting is a strategic fit by professional accountants aimed at addressing such business risk like the impact of climate change, extreme weather condition, political and social instability, poor health care, environmental degradation, pollution, hunger etc. (IFAC 2009). The onus lies on chief executive officers and financial officers to provide useful decision that will enhance the resilience of business in relation to planet, profit, corporate social responsibility and the people. The relevant information required in sustainability for useful decision making are monetized data or material information that will satisfy the curiosity of the present generation without stampeding the needs of future generation. Therefore, it is expedient to design a balance business model with short and long run value chain.

But hitherto, the subsisting traditional financial accounting had a hiatus in externalities.

The current traditional financial statement does not incorporate the impact of its economic, social and environmental activities. These impacts are the associated benefits and the cost otherwise known as externalities. These externalities (cost & benefits) do not occur directly to the entities. In addition, the market price excludes the consequences of business operation. This makes the measurement of business activities inadequate in view of the exclusion of the cost and benefits. For instance, the emission from generator fuel to the environment, emission from transportation vehicle affects the ozone layers; the effect of gas flaring on the environment, the effect of oil

exploration which cause environmental degradation etc. The primary concern of sustainability accounting is to account for both externalities and internalities emanating from entity's operations into the financial statement. The sure way of accounting for the environmental, social and economic impact is through environmental levy, taxes and compliance cost etc.

The concept of sustainability accounting gained momentum in view of the increasing need of service economy; the changing requirement of corporate governance; the long run effect of the understanding of sustainability development and the associated benefits by management. A modern servicing economy needs credible report and creativity. The present financial Accounting and statement is mostly codified but the understanding of sustainability in industrialized nations requires more time for a good understanding. Another issue is the pressure from regulators and stakeholders on industries to know the social, environmental and economic impacts of its operation (sigma: 2003). The traditional financial accounting focuses on financial performance in the income statement on it and the financial position in the balance sheet. The primary concern is the form of stock arising from its operational activities. However, sustainability accounting focuses in the impact of the flow of stock in relation to time, location and the type of impact. It provides answers to such questions like; the period covered by the stock; the location boundary of the impact either external or internal within the financial reporting framework of an entity and the type of impact whether economic, social or environmental.

Sustainability Accounting requires the disaggregation of those three dimensions; timing, location of impact and type of impact in the financial statement. The flow of the impact from stock ether environmental, economic and social should be reported in isolation.

RESTATEMENT OF FINANCIAL STATEMENT

The disaggregation of the various cost and benefits from operational activities requires the expansion of both income statement and statement of financial position. It requires the extension of both the profit and loss account and balance sheet to accommodate both the cost and benefit of internal / external impact.

Broadly speaking, the components of sustainability is divided into: internal flows and external flows. The internal flows in the income statement is further subdivided into economic value added, environmental value added and social value added. The external flows comprises economic cost and benefits, environmental cost and benefits and social cost and benefits.

INCOME STATEMENT: Economic value added.

Value added statement is a subcomponent of sustainability accounting that focuses on returns to stakeholders and shareholders. The return to stake holders is presented in economic value added statement. It is the restatement of the financial flows in the income statement to the respective beneficiaries of the benefit. The primary concern of the economic value added statement is the presentation of the wealth generated to stakeholders. The simple format is sales less cost of sales.

Environment value added

This entails the re-statement of income statement with the integration of the attendant cost and benefits which are often not reported in traditional profit and loss account. The presentation of the associated cost and benefits are presented in the Environmental Financial Statement (EFS). The Environmental Financial System collates or assemble all the related cost and benefits in a single document (EFS). It does not only assemble the related expenditures but it matches it against the attendant savings. The cost and benefits are usually for a given fiscal year or period under review. Such cost may include pipeline maintenance, remediation of polluted area, waste disposal, re-remediation clean-ups and offsite, remediation clean-upson sites, depreciation, program pollution control, Auditors and attorney fees, engineering services, government claims among others. The related savings or benefits may include: income from recycling, ozone depletion cost savings, water conservation, water savings, hazardous waste cost reduction measure, energy conservation measure, packaging cost reduction measure, environmental grant, taxes avoided etc.

SOCIAL VALUE ADDED

The social value added is embodied also in the statement of comprehensive income which is often hidden and not reported in the profit and loss account. The social value added does not integrate or capture the related outflows to stakeholders but rather addresses the social value of its policies and programs to the organization. It reports the economic benefit of its corporate social responsibilities to the organization. The presentation of such concomitant cost and benefits are presented in the social financial statement (SFS). The basic step is to ascertain the scope of each social benefits and cost. These include: pollution control measure, deforestation, health safety measure, provision of pipe borne water in host communities, scholarship, construction of drainages, health care facilities, auditorium, provision of solar street light, land reclamation, employment, construction of market stalls, concrete walkway, medical outreach, landfill and provision of relief materials among other during emergency. The benefits accruable from these social cost are immeasurable. This include increased productivity in view of the relative peace in business operation, increase in reported profit etc.

EXTERNAL FLOWS: Statement of comprehensive income.

This is an expansion of the traditional profit and loss scope by integrating the environmental, economic and social impacts that accrue directly to society and other stakeholders outside an entity. It entails the externalization of the cost and benefits that accrue directly to the wider society and not the entity. For instance, stress may affect an entity adversely and all the individual employees and their families negatively. The stress by the employee may result in loss of productivity which could be internalized and presented in the social financial statement and the greater impact on the employee and larger society is presented in external social cost.

To this end, the presentation of external environmental, economic and social impact requires the gathering of relevant information through diligent analysis and evaluation which includes:

- a. Scoping of impacts
- b. Determination of boundaries
- c. The Triple Bottom Line (TBL) approach through the determination of sustainable profit
- d. The monetary valuation model.

The scoping of impacts requires the collection and ascertaining of the relevant cost associated with projects. It requires the input of critical stakeholders in the project. It requires the identification of the different stages or activities in the completion of projects. It could be upstream or downstream. It requires the engagement of engineers, architect, surveyors, community chiefs where necessary, proper documentation, interviews and report. A full life approach from the cradle to grave is preferable. It requires the full documentation of the impact of product and services from the beginning to completion.

The determination the boundaries requires the proper demarcation of the scope of the impact. It is often discretionary on what type of impact to account for and the ones not to account for in the determination of sustainable profit. The traditional financial accounting statement is already constrained by statutes and regulatory framework but sustainability accounting requires broader spectrum of activities and its impact on the environmental, economic and social mode of an entity's. the full cost approach which internalize the environmental, economic and social impacts is advocated. These may include related direct and indirect cost of project, hidden cost such as health care, safety, environmental management system, regulatory cost, contingent liabilities with fines, clean up, regulatory cost associated with project etc.

The monetary valuation approach requires the measurement of various impacts in organization. It entails the assignment of cost or monetary value to the associated impacts of operational activities. The determination of sustainable profit is a function of the value added by organizational performance. The traditional income statement does not take into cognizance the associated environmental, economic and economic cost that have significant impact on the financial profit.

Therefore, it is expedient to deduct the attendant external cost from financial profit to arrive at sustainable profit.

THE ROLE OF STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

In reality, the sustainability accounting statement of financial position focuses on stock of outflows and inflows in an organization. It lays emphasis on factors of production. There is a paradigm shift in the spotlight for economic outlook from growth to sustainable development. It is on this note that premium is being attached to the inclusion of the Five models of capital in the balance sheet. The five Sigma capital model include; financial capital, human resources (employees), social capital, natural capital, and manufactured capital (fixed assets). This is intended to report all the attendant externalities of impact internally. The current accounting practice recognizes all factors of production such as fixed assets, working capital and long term liabilities in the statement of financial position. Assets is defined as a resource owned and controlled by an entity as a result of past transaction with an expected future economic benefit. On the other hand, liability is the financial obligation of an organization which involves the transfer of economic value as a result of past event or transaction. The recognition criteria are hinged on the sufficiency of the evidence on the existence of the transaction and the reliability of the evidence. There is also another element in the balance sheet that cannot be wished way known as intangibles. Intangible assets are the values of equity that are quoted in capital market. It is the market values of company's stock that is influenced by the forces of demand and supply. There is significant difference between equity value and the book value of assets. The book value is the written down value of assets in the balance sheet. There is a wide margin between equity value of assets and book value in view of market volatility. However, there are four methods of measuring intangibles which include;

- a) The scorecard method
- b) The direct method
- c) Market capitalization method
- d) Return on assets method
- e) The scorecard method relates to the process of identifying relevant intangible assets and assigning indicators to it. It does not involve the monetization of the indicators. The scorecard method is similar to balance scorecard. It identifies the different components and presented in scorecard. It is difficult to interpret because the data is not monetized.
- f) The direct method also identifies the components and monetize the data. It assigns values to the various components. The value is assigned on the historical cost or future market value of the intangibles. The future value is used as the replacement value of the asset. It also deals in inter branding the component by producing brand values. The amount above the generic score is multiplied by an assumed judgmental score.
- g) The market capitalization method relates to the difference between market capitalization and the net assets as the intangibles. The market capitalization is deemed unreliable because of fluctuation in the short run and long run.
- h) Return on assets method is the process of comparing the return from assets with the industry average returns. The returns could be either from tangible assets or intangible asset. The difference is divided by the company cost of capital. Shadow cost are debited in the profit and loss Account and credited in the balance sheet. The shadow liabilities explains the extent to which an organization has utilized its social capital, natural and human capital in the value chain of the entity.
- i) LIABILITIES
- j) This aspect deals in reducing the hiatus between stock outflow and inflow. This is achieved through shadow liability and shadow provision. The shadow cost relates to the cost of preventing or restoring the environmental and social impacts of business operation.

THE GRI SUSTAINABILITY PRINCIPLES

The Global Reporting Initiative (GRI) is an international organization that seeks to provide a general framework and dimensions in reporting on the environmental, economic and social impact of entity's performance. The GRI sustainability framework is voluntary to user. The Global Reporting Initiative principles is encapsulated in four dimensions.

- a. The system which provides the framework for reporting (transparency, inclusiveness and auditability).
- b. The perspective of what is being reported on (completeness, relevance and sustainability context)
- c. The dimension that promotes quality and reliability (accuracy, neutrality, comparability)
- d. The perspective of access to the report (clarity and timeliness)

However, the principles of transparency and inclusiveness is the bedrock of the guidelines which seeks to unify the other principles. All other principles of Global Reporting Initiative draw its inference from transparency and inclusiveness because it is intertwined.

The principles of sustainability context, completeness and relevance are sacrosanct in disclosing the challenges, risk and opportunities inherent in organizational performance. These principles are the basis for determining the reporting boundaries, the scope and time of the impact.

TRANSPARENCY

The onus lies on reporting entity to furnish relevant stakeholders with adequate information relating to the process, procedures and assumptions culminating in the release of the report. There is increasing demand for adequate disclosure on the respective activities contained in the report. It requires full disclosure in order to enhance simple interpretation of the report. It is on this note that transparency cuts across other principles.

INCLUSIVENESS

Inclusiveness of the report relates to broad consultation of stakeholders on the quality of performance. The reporting entity is required to consult widely on the quality and credibility of entity's impacts. The wide stakeholders consultation reinforces the credibility of the report. The stakeholders in this context may include both those who are directly or indirectly affected by the report. Their view is relevant because it addresses the diverse needs of stakeholders. Global Reporting Initiative (GRI) advocates for systematic grouping or prioritization of the stakeholders for effectiveness.

SUSTAINABILITY CONTEXT

This entails the contextualization of entity's performance in the boarder environmental, economic and social capital in relations to value added. It provides answer as to the extent organizational performance has significantly impacted on the environmental, economic and social capital. It seeks to know the degree of effect of performance on the Triple Bottom Line (TBL) at the local regional and national level.

ACCURACY

Accuracy refers to the extent of correctness of reported data with little or no data of error with high degree of precision. Reported data or information could be qualitative or quantitative form but charity is key in the mode of presentation.

NEUTRALITY

The principles of neutrality is predicated on fairness and unbiasedness in the presentation of economic, environmental and social performance. It requires objective report of both adverse and favourable performances. The report should contain facts devoid of sentiment. The report should be devoid of material misstatement and omission.

COMPARABILITY

This requires benchmarking of economic, environmental and social indicators across period or organizations.

AUDITABILITY

The principle of auditability draws its interence from reliability of reporting data and information. It entails the proper recording, custody, analysis and full disclosure of relevant data and information. This will enhance the reliability of the report. The reliability of the reporting data will enable auditors (both internal and external) to draw reasonable and objective assurance as to the completeness, accuracy and fairness of the report.

COMPLETENESS

The completeness of sustainability report is hinged on the materiality of the information. It requires the detailed reporting of all sufficient and material information on the environmental, economic and social performance of organization. The completeness of report is based on three perspective vic: operational boundary, scope dimension and temporal dimension. The temporal dimension refers to the completeness of the impact or performance in the period under review.

RELEVANCE

The relevance of sustainability report is gauged by the degree of premium or significance attached to the reported data or information. It relates to the amount of values assigned to information which forms the ceiling or basis of report. Through, stakeholders may differ on what constitutes the relevance of report, the primary concern is whether it serves the needs of users. Relevance is measured by the import of its service to stakeholders.

RESULTS, RECOMMENDATIONS AND CONCLUSIONS

It was found out that the companies do not have separate column in their statement of financial position and income statement for reporting environmental value added, and social value added impact. There is no clearly defined framework for the adoption of global reporting guidelines and principles. Most entities are yet to be acquainted with the principles of GRI in accounting for environmental, social and economic impact from companies operations;

It was found out that there is no legal and standard framework for accounting for environmental impact. Though, each company is only making effort to account for capital expenditure on corporate social responsibilities in its financial statements. There is no generally acceptable accounting standard on sustainability accounting yet. Infact, some respondents are yet to even know the concept of environmental accounting.

RECOMMENDATIONS

The International Federation of Accountants (IFAC) and the International Accounting Standard Board (IASB) should expedite action in prescribing user-friendly standard in accounting for the economic, environmental and social impact of entity's operations in their financial statement.

The Financial Reporting Council of Nigeria (FRC) should make it mandatory for all multinational to account for its impacts and report same in their financial statements. Companies should train and retrain its staff on the concept of sustainability reporting. A distinct department or unit should be created for it in companies.

The Global Reporting Initiative (GRI) principles should be adopted by companies and MDAs.

CONCLUSION

The traditional financial accounting practice negates the concept of sustainability accounting with the exclusion of externalities in its financial statement. It is now being opinned by scholars that financial statement should include the attendant benefits and cost of the impact of business operation in an environment. Companies should incorporate the impacts (cost and benefits) from

its operation in its statement of financial position. There is a paradigm shift from economic growth to sustainable development. The preparers of financial statement should make concerted effort towards intergratuer the five capital models which include human capital, social capital, and natural capital. Manufactured capital and financial capital. Also, important, is the measurement and inclusion of intangibles in the income statement (P&1 account).

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