



Book Review

Environmental Implications on Business & Certified Public Accountants

Gehan. A. Mousa¹

¹ College of Business Administration, University of Bahrain

Received 1 August 2016, Revised 20 September 2016, Accepted 3 October 2016, Published 1 January 2017

Abstract: Companies are currently faced with an increasing number of environmental laws and pressures from a variety of stakeholders regarding environmental performance. These laws impose sanctions on offending companies. These sanctions lead to the creation of environmental risks for companies such as fines and penalties for pollution of land, water or air, loss of the public confidence, and also companies may be shut down. Consequently, a number of arguments have emerged concerning the relevance of the Certified Public Accountants in contributing to the area of environmental concerns. The book is principally concerned with discussing the questions: (i) can the Certified Public Accountants make a contribution in the area of environmental audits? (ii) are Certified Public Accountants in a position to assess environmental implications on business?

Keywords: Environmental issues, Environmental auditing, Certified Public Accountants.

1. INTRODUCTION

The earth has been evolving and changing throughout its history, and it may continue to do so. Previous environmental changes were driven by natural forces, and the primitive ancestors had to adapt to these in order to survive. Today certain environmental changes are taking place as a result of modern industrial area. For example, in just one industrial sector: refrigeration which uses chlorofluorocarbons (CFCs), the use of CFCs resulted in the depletion of ozone layer in the upper atmosphere (Meall, 1990, P. 124, Atchia and Tropp, 1995, PP. 82-86). Environmental issues are arising from increasing concern about the interaction between business and the natural environment which will affect companies. The last two decades therefore have witnessed the growing importance of environmental issues. The report of the World Commission on the Environment and Development (1987, P.6) points out that “we found everywhere deep public concern for the environment, concern that has led not just to protests but often to changed behaviour. The challenge is to ensure that these new values are more adequately reflected in the principles

and operations of political and economic structures”. At the beginning of the century thick dark smoke and stinking water were regarded as a necessary evil of economic welfare. Today society demands clean air, clean water, and sustainable development (Drummond and Bain, 1994, Kenneth and John, 1982, Peter, 1981, Sternberg, 2000, Mason, et. al, 1995). The human impact on the natural environment is not only local or regional but poses a threat to the global ecosphere. As shown by scientific findings [e.g. about the ozone layer and climatic change]. In general, environmental issues have two aspects. The first is pertinent to the natural resource-base and involves land development to support food production, water shortage and quality, availability of energy and management of the natural heritage. The second is concerned with the decay of environmental quality such as air pollution and water pollution, soil erosion, solid waste and noise pollution (Attia, 1999, P. 45).

Awareness of environmental issues has been rising during the last 20 years and environmental pressure groups have been growing in most countries. A number of countries have environmental laws and regulations to protect the environment such as the U.S. the UK, Egypt,



Canada, Swiss, Dutchland, and Germany. These laws impose sanctions on offending companies, therefore, environmental issues may have a material effect on companies either directly or indirectly. The last decade has witnessed a lot of environmental risks for organizations, for example, in the 1960s, the asbestos industry sold products that have been causing tremendous health damage in the 1980s and 1990s. Today, asbestos as a product is mostly phased out and the insurance companies (which have not caused the damage) have to foot the financial bill.

Companies are currently faced with an increasing number of environmental laws and pressures from a variety of stakeholders regarding environmental performance. These laws impose sanctions on offending companies. These sanctions lead to the creation of environmental risks for companies such as fines and penalties for pollution of land, water or air, loss of the public confidence, and also companies may be shut down (Graves et al., 1996; Wood, 1990; Sternberg, 2000; Mason, 1995). Because of these risks, stakeholders, consumers, investors, and others ask for information about environmental impacts on business. Environmental information can help them to take their decisions. The credibility of this information will increase if it is audited by an independent auditor (ICAEW, 1992).

An increasingly substantial number of studies (APB, 1995, 1993; APC, 1991; CICA, 1992, 1994, 1997; Collison et al., 1996; Collison and Slomp, 2000; ICAEW, 1992, 2000; FEE, 1993; Collison and Gray, 1997) have argued that environmental issues have a significant impact on the auditing profession and financial auditors should consider these issues when auditing the financial statements of companies. The possible implications of environmental issues on financial auditors' functions are discussed (Blockdijk and Driehuisen, 1992; Colbert and Scarbrough, 1993; Gray et al., 1993; Owen, 1992; Roussey, 1992; Collison and Gray, 1997; Brown, 2000; ICAEW, 1992, 2002). The American Institute of Certified Public Accountants (AICPA, 1973) pointed out that the basic objective of financial statements is reporting about an organization's activities, which impact on society, can be determined or measured, and are essential for the organization's role in its environment. AICPA (1976) argued that there is a necessity to widen the scope of conventional auditing for evaluating environmental control standards or regulatory procedures. It concluded auditors had responsibilities for environmental management. They should understand different situations for control pollution and be able to evaluate its effects for external parties. AICPA (1989) addressed the impact of illegal acts (such as, environmental violations) on the auditors' report when auditing the financial statements.

Collison et al. (1996) argue that auditors are becoming more involved in various aspects of the environmental agenda and the notion of auditing is gaining a wider currency on the environmental agenda than as applied to only attestation of financial statements. Also, 57 % of finance directors surveyed by Coopers and Lybrand (1990) expected their financial auditors to understand environmental issues affecting their business. Despite this auditors' participation in environmental audits is still limited, a number of arguments have emerged concerning the relevance of financial auditors to participate in these audits. Some studies advocate this participation, especially, if auditors co-operate with other specialists, while other studies have criticised auditors' ability to take part in these audits.

The critical question of this book is should the financial auditors be involved in environmental auditing? What are obstacles which limit their participation?

2. OBJECTIVES OF THE BOOK

The general objective of this book is to increase an understanding of environmental impacts on the auditing profession and the financial auditors' work, as well as recognizing obstacles, which limit auditors' participation in environmental auditing in Egypt. Specific objectives of this book are to describe three attribute (environmental awareness, environmental auditing, and auditors' involvement in environmental auditing and obstacles which limit this) by surveying three groups (researchers-practitioners and some companies).

3. THE IMPORTANCE OF THE BOOK

Environmental issues are a critical subject for business. Some researchers have done work in this area, particularly in the United States and the United Kingdom, but in Arab countries environmental issues just start to be considered.

Therefore, this research is necessary for the Arab countries, especially, Egypt for the following reasons:-
-to highlight the importance of environmental issues and their impact on business today, to increase awareness of environmental issues in society, investigate companies' motivations for environmental disclosure, and determine the barriers which face external auditors to take part in environmental auditing.

4. STRUCTURE OF THE BOOK

It is divided into two parts (the first is theoretical and the second is empirical).

The theoretical part consists of six chapters:

-Chapter one serves as the introduction to the entire study. It provides brief information about the purpose of



the book. It also explains the importance and objectives of the book.

-Chapter two addresses the question “is there a need for environmental auditing?” through identifying environmental impacts on business. The relationship between business ethics and the environment is provided. Arguments about the importance of widening the scope of conventional auditing to encapsulate environmental issues are presented. A number of matters related to environmental auditing are presented (such as, its emergence, definition, objectives, types and its dimensions) to introduce a background about environmental auditing.

-Chapter three recognizes the impact of environmental issues on the auditing profession by recognizing the impact of these issues on companies’ financial statements, and the sustainability of companies. It includes a review of environmental auditing literature to identify the features of environmental impacts on business, and the auditing profession. Accounting for contingencies is presented. The impact of environmental issues on going concern assumption and materiality policy are demonstrated.

-Chapter four attempts to answer the question, should financial auditors be involved in environmental audits? and what are barriers which limit their participation in these audits?. The chapter includes a review of environmental challenges, which face accountants and auditors. The financial auditors’ duties, and the expectation gap between what users expect from auditors and what auditors really provide, are presented. The responsibilities of auditors concerning illegal acts and auditing accounting estimates are discussed. Arguments about the relevance of financial auditors in carrying out environmental audits and their responsibility towards environmental disclosure are provided. A discussion about factors, which limit auditors’ involvement in environmental audits, is addressed.

-Chapter five provides a theoretical framework based on a legitimacy theory perspective to examine the question why some companies pay attention to environmental issues and engage in environmental disclosure while others ignore these issues. It aims to identify companies’ motivations for environmental disclosure, which may impact on the level of demand for environmental auditing, consequently, may effect on auditors’ participation in that audit. The chapter includes defining the concept of legitimacy, and presenting perspectives on legitimacy theory. The literature of legitimacy theory is reviewed. The relationship between legitimacy theory and corporate environmental reporting are presented. The corporate image as an example of the legitimating motive is addressed. Also, the relevant public who has the right

to know environmental impacts on business is discussed. Legitimizing the corporate environmental reports is provided.

-Chapter six investigates the obstacles, which make companies prefer not to engage in environmental reporting and identifies a general framework of the requirements of environmental reports. It provides a review of some accountancy bodies’ activities concerning environmental matters and environmental initiatives, such as the Copenhagen Charter (1999), the Accountability AA1000 (and AA2000), the Global Reporting Initiatives Guidelines (GRIs 2000), the British Standard (BS7750), the International Organization for Standardization (ISO 14000), and the Eco-Management and Audit Scheme (EMAS). The problems, which limit companies to produce detailed environmental reports, are presented. Whether the international environmental initiatives can meet the requirements of environmental reports are provided.

The empirical part consists of four chapters

-Chapter seven examines the researcher’s rationality for adapting a research methodology, which based on conducting surveys for three groups (researchers-external auditors-some companies) through applying a legitimacy theory perspective across the Egyptian community.

-Chapter eight presents the research methodology, which is primarily an empirical study surveying the views of some researchers, practitioners and companies concerning external auditors’ involvement in environmental audits and companies’ motivations for environmental disclosure through three attributes (environmental awareness, environmental auditing and the external auditor’s involvement in environmental auditing and obstacles, which limit that). The sample frame, the statistical methodology, and the descriptive analysis of surveys are presented. The statistical methodology based on adapting three steps (namely, the descriptive analysis; the factor analysis and the correlation and regression analysis).

-Chapter nine provides additional statistical analysis (factor analysis and correlation and regression analysis) to describe the external auditor’s involvement in environmental auditing and obstacles, which limit that, as well as recognize companies’ motivations for environmental disclosure, which may impact on the level of demand for environmental auditing. The Pearson correlation analysis is used to examine the relationship between obstacles to auditors’ participation in environmental auditing and other variables. The stepwise regression is employed to select the independent variables for designing the descriptive regression model for each survey.



-Chapter ten outlines the findings and implications of the research. Suggestions for future research are addressed.

Reference

- Accountancy, April, (1991), 12, pp. 115-116. Accountancy, June, (1992), pp. 58-59.
- (ASSC)Accounting Standards Steering Committee, (1975),”The Corporate Report”, London, ICA, July.
- (A.A.A)American Accounting Association, (1973). Committee on Basic Auditing Concepts, A Statement of Auditing Concepts, New York,(A.A.A.).
- (AICPA)American Institute of Certified Public Accountants, (1973). Objective of Financial Statements, New York AICPA.
- (AICPA)American Institute of Certified Public Accountants, (1976). The Measurement Corporate Social Performance, New York, AICPA.
- Attia, K. A., (1999). Environmental Accounting in a Developing Country: A Case Study of Egypt, PhD Dissertation, UK ,University of Strathclyde.
- Beets, S. and Souther, C., (1999). Corporate Environmental Reports- The Need for Standards and an Environmental Assurance Service, Accounting Horizons, June, pp. 129-145.
- Blacconiere, W. and Patten, D., (1994). Environmental Disclosures, Regulatory Costs, and Changes in Firm Value, Journal of Accounting and Economics, No. 18, pp. 357-377.
- Blanchard, K. and Peale, N., (1988), “The Power of Ethical Management”, New York: William Morrow.
- Bowen, H., (1971). Social Responsibility of Businessman, New York, Harper & Brothers, NY.
- Bowie, N., Morality, Money, and Motor Cars: in Hoffman, W. Michael, Frederick, Robert and Petry, Edward S. Jr, (eds) (1990). Business, Ethics and The Environment: The Public Policy Debate, New York: Quorum Books, pp. 89-94.
- Brady, K., Henson, P. and Fava, J., (1999). Sustainability, Eco-Efficiency, Life-Cycle Management, and Business Strategy, Environmental Quality Management, Spring, pp. 33-41.
- Brown, C. L., (1979). Credibility Requires Leadership, Internal Auditor, Vol. 36, No. 5, October, pp. 126-128.
- Brown, C. L., (2000). A Review of the Current Status of Environmental Reporting, How it Evolved and What Actions Need to be Taken for Further Development, MS Dissertation, UK, University of Durham.
- Brown, R. G., (1962), “Changing Audit Objectives and Techniques”, The Accounting Review, October, pp. 696-703.
- Burnett-Hall(a), R., (1994). Directors’ Liabilities: The Environmental Element, Accountancy, March, pp. 126-132.
- Burnett-Hall(b), R., (1994). Asset Values and Environmental Legislation, Accountancy, January, pp. 126-128.
- Canadian Environmental Auditing Association, (2000). (<http://www.cea.acve.ca/certify.htm>).
- CH₂MHILL, (1993). The Role of Internal Auditors in Environmental Issues, Altamonte, Springs, Florida, The Institute of Internal Auditors Research Foundation.
- (CICA) The Canadian Institute of Chartered Accountants, (1992). Environmental Auditing and the Role of the Accounting Profession, Toronto, CICA,
- Colbert, J. and Scarbrough, C., (1993). Environmental Issues in a Financial Audit Which Professional Standards Apply, Managerial Auditing Journal, Vol. 8, No. 5, pp. 26-32.
- Cooper and Lybrand, (1984). Manual of Auditing, Fourth Edition, London, Gee and Co-Publishers Ltd.
- Cornell, D. W. and Apostolou, B., (1991). Auditing for Violations of Environmental Laws, The National Public Accountant, July, pp. 18-19.
- Dillard, J., (1991). Accounting as a Critical Social Science, Accounting, Auditing and Accountability Journal, Vol. 4, No. 1, pp. 8-28
- Drummond, J. and Bain, B., (1994). Managing Business Ethics: A Reader on Business Ethics for Managers and Students, Butterworth-Heinemann Ltd.
- Dunn, J., (1991). Auditing Theory and Practice, London, Prentice-Hall International.
- Elkington, J., and Jennings, V., (1991). The Rise of the Environmental Audit, Integrated Environmental Management, Vol. 6, pp. 8-10.
- Frederick, W., Post, J., and Davis, K., (1992), “Business and Society”, New York, McGraw-Hill.
- Freedman, M. and Jaggi, B., (1994). Analysis of Association between Pollution Performance and Input Cost Factors: The Case of Electronic Utility Plants, Journal of Accounting and Public Policy, Vol. 13, pp. 34-48.
- Gingrich, N., (1995). To Renew America, New York, Harper Collins.
- Fresher, D., (1996). Internal Auditing Standards and Practices-A One Semester Course, The Institute of Internal Auditors.
- Gray, R., Bebbington, J., and Walters, D., (1993). Accounting for the Environment-(The Greening of Accountancy, Part II), London, Paul Chapman Publishing Ltd.
- Gray, R. and Collison, D., (1991). The Environmental Audit: Green Gauge or White Wash, Managerial Journal of Auditing, Vol. 6, pp. 17-25.
- Gwilliam, D., (1988). A Survey of Auditing Research, Prentice-Hall International, The Institute of Chartered Accountants in England and Wales.
- Hatherly, D., (1980). The Audit Evidence Process, London, Anderson Keenan Publishing.
- Hawtin, M., Hughes, G., and Smith, J., (1994). Community Profiling Auditing Social Needs, London, Edmundsbury Press.
- Health and Safety Auditor Certification, (2000), (<http://rutgers.edu/Accounting/raw/beac/whatnew.html>).
- (ICC) International Chamber of Commerce, (1991). ICC Guide to Effective Environmental Auditing, Paris, France, ICC Publishing S. A.
- Jacobs, M., (1991). Environmental Auditing in Local Government, London, Local Government Management Board.
- Judge, W. and Douglas, T., (1998). Performance Implications of Incorporating Natural Environmental Issues into the Strategic Planning Process: An Empirical Assessment, Journal of Management Studies, March, pp. 241-262.
- Kassinis, G. and Vafeas, N., (2002). Corporate Boards and Outside Stakeholders as Determinants of Environmental Litigation, Strategic Management Journal, Vol. 23, No. 5, pp. 399-415.
- Kenneth, E. and John, M., (1982). Can a Corporation Have a Conscience, Harvard Business Review, Vol. 60, (Jan.-Feb.), pp. 132-142.



- Langford, R., (1995), "Accountants and the Environment", *Accountancy*, June, pp. 128-129.
- Lewis, L., and Owen, D., (1992). *Accounting and the Social a Pedagogic Perspective*, *British Accounting Review*, No. 24, pp. 219-233.
- Luthans, F., Hodgetts, R. and Thompson, K., (1984). *Social Issues in Business: Strategic and Public Policy Perspectives*, Fourth Edition, New York, Macmillan Publishing Company.
- Mason, R., Mason, F. and Culunan, M., (1995). *Ethics of Information Management*, London, Sage Publications, Inc..
- Mousa, G. A. (2015). *Environmental Implications on Business & Certified Public Accountants*, LAP LAMBERT Academic Publishing, Germany.
- Mousa, G. A. (2012). *Corporate environmental reporting & the auditors' role*, LAP LAMBERT Academic Publishin, Germany.
- Natale, S. and Ford, J., (1995). *The Social Audit and Ethics*, *Management Auditing*, Vol. 9, No. 1, pp. 29-33.
- Niskala, M., and Pretes, M., (1995). *Environmental Reporting in Finland: A Note on the Use of Annual Reports*, *Accounting, Organization and Society*, Vol., 20, No. 6, pp. 457-466.
- Owen, D., (1992). *Green Reporting Accountancy and the Challenge of the Nineties*, London, Chapman & Hall.
- Owen, D., Swift, T., Humhry, C., and Bowerman, M., (2000). *The New Social Audits Accountability Managerial Capture of the Agenda of Social Champions*, *The European Accounting Review*, Vol. 9, No. 1, pp. 81-98.
- Peter, F. D., (1981). *What is Business Ethics?*, *The Public Interest*, (63), Spring, pp. 18-36.
- Post, J. and Altman, B., (1994). *Managing the Environmental Change Process: Barriers and Opportunities*, *Journal of Organizational Change Management*, Vol. 7, No. 4, PP. 64-81.
- Pratt, M. J., (1987). *Auditing*, Second Edition, London, Pitman Publishing.
- Price Waterhouse, (1991). *Environmental Accounting: The Issues, the Developing Solutions-A Survey of Corporate American's Accounting for Environmental Costs*, London, Price Waterhouse.
- Roussey, R., (1992). *Auditing Environmental Liabilities*, *Auditing A Journal of Practice & Theory*, Vol. 1, No. 1, Spring, pp. 47-57.
- Ruf, B., Muralidhar, K., Brown, R., Janney, J. and Paul, K., (2001). *An Empirical Investigation of the Relationship Between Change in Corporate Social Performance and Financial Performance : A Stakeholder Theory Perspective*, *Journal of Business Ethics*, Vol.32, pp.143-156.
- Russo, M. and Fouts, P., (1997). *A Resource- Based Perspective on Corporate Environmental Performance and Profitability*, *Academy of Management Journal*, Vol.40, No.3, pp.534-559.
- Schaltegger, S., Muller, K. and Hindrichsen, H., (1996). *Corporate Environmental Accounting*, Chichester, England, John Wiley & Sons.
- Sherer, M. and Kent, D., (1983). *Auditing and Accountability*, London, Pitman.
- Shields, D. and Boer, G., (1997). *Research in Environmental Accounting*, *Journal of Accounting and Public Policy*, Vol. 16, No. 2, Summer, pp. 117-125.
- Show, J. C., BL, ACX, FCMA, and Jdipma, (1980). *The Audit Report what it says and What it means*, London, Gee and Co Publishers Ltd.
- Sinclair-Desgagne, B. and Gabel, H., (1997). *Environmental Auditing in Management Systems and Public Policy*, *Journal of Environmental Economics and Management*, Vol.33, pp.331-346.
- Specht, L. B., (1992). *The Auditor SAS 54 and Environmental Violations*, *Journal of Accountancy*, December, pp. 69-79.
- Sternberg, E., (2000). *Just Business. Business Ethics in Action*, Second Edition, England, Oxford University Press.
- Surma, J. P. and Vondra, A. A., (1992). *Accounting for Environmental Costs: A Hazardous Subject*, *Journal of Accountancy*, March, pp. 51-55.
- The Business Roundtable, (1998). *Corporate Ethics: A Prime Business Asset*, A Report by the Business Roundtable, New York, February.
- The Accountant, (1991). July, pp. 8-10.
- Thompson, D., (1993). *Improving Environmental Management: Eight Tools for Sustainable Development*, Handout, University of Calgary, Faculty of Environmental Design.
- Wallace, W., (1980). *The Economic Role of the Audit in Free and Regulated Markets*, London, The Touche Ross & Co. Aid to Education Program.
- Walley, N. and Whitehead, B., (1994). *It's not Easy Being Green*, *Harvard Business Review*, Vol.72, No.3, pp.46-52.
- Wilson, M., (1992). *Environmental Auditing: Principles and Applications*, Master's Degree Project, University of Calgary, Faculty of Environmental Design.
- Wood, D. J., (1990). *Business and Society*, London, Happer Collins Publishers.
- Wood, D. J., (1991). *Corporate Social Performance Revised*, *Academy of Management Review*, Vol. 16, No. 4, pp. 691-718.
- Zuber, G. R. and Berry, C. G., (1992). *Assessing Environmental Risk*, *Journal of Accountancy*, March, pp. 43-48.

