

A Study on Environmental Accounting and Reporting in Neyveli Lignite Corporation Limited, Neyveli



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Abstract

The present study entitling “Environmental Accounting & Reporting in Neyveli Lignite Corporation Limited, Neyveli” is purely based on secondary data. The secondary data for the study is collected from the Annual Reports for the year 2008-2009 to 2012-2013 of Neyveli Lignite Corporation Limited, Neyveli, Tamilnadu, the company taken for the study. As on present it is strongly felt that corporates should put immense efforts in EAR which gains keen attention at international level. When companies in many countries have made considerable development in their EAR practices, most Indian companies are considered to be far from satisfactory in this line and hence poor in real sense of the term. Therefore, a study on the current EAR practices of Indian companies and making vital suggestions to improve the same is the need of the time.

Keywords: Environmental Accounting, Environmental Reporting, Qualitative Disclosures, Annual Reports

Introduction

People all over the world became more concerned about the quality of their environment during early fifties and sixties of the 19th Century. Well-known environmental tragedies, like the cause of mercury poisoning in Japan, severe smoke pollution episode in London and the massive oil spill caused by Terry Canyon accident reinforced in people’s mind the sense that the quality of air, water and a wide range of other natural resources was being seriously degraded. The intensity of danger from chemicals can be gauged from the extent of havoc caused by the accident in a pesticide factory at Bhopal (India) on mid-night of 2-3 December 1984. The episode killed over 3,000 people, blinded several thousand and affected over 1,50,000 people. This concern had been repeatedly expressed in a series of international summits right from the sixties. For the first time the World Conference on global environment was held in June, 1972 and it was considered the pivotal event in the growth of the global environment movement. It was the first occasion on which the political, social and economic problems of the global environment were discussed at an inter-governmental

forum with a view to taking corrective action. It aimed at creating a basis for comprehensive consideration with the United Nations of the problems of the human environment and focusing the attention of governments and public opinion to various countries on the importance of the problem. It ultimately gave birth to a special United Nations Agency titled “United Nations Environmental Program (UNEP)”.

In the mid- eighties, on the basis of changing situation and becoming the environmental issues a world-wide phenomenon in the developed and developing countries, World Commission on Environment and Development (WCED), known as ‘BRUNTLAND COMMISSION’, headed by Norway’s Prime Minister, Mrs. Gro Harlem Bruntland, was established by the UN. The Commission published a report called “Our Common Future” in 1987 with the proposed concept of Sustainable Development. The concept received worldwide acceptance and led to the convening of the United Nations Conference on Earth and Development (UNCED) in Rio de Janerio, Brazil, known as “EARTH SUMMIT”. In this conference, heads of different states signed four agreed documents which contains a checklist of do’s and don’ts to protect the environment throughout the next century.

Indian Scenario of Corporate Environmental Accounting and Reporting

In India, the level of environmental related disclosures in the corporate annual reports, both financial and non-financial is not encouraging. There are many reasons for poor disclosure of environmental information in corporate annual reports. First, neither the company law nor the accounting standards/guidelines issued by the Institute of Chartered Accountants of India prescribe disclosing norms for the environment related matter in the corporate financial statements. Secondly, the status of voluntary environmental disclosure in the annual reports of the Indian companies is poor. The main reason for this poor disclosure of environmental information may be its voluntary in nature. Thirdly, it may be due to the lack of awareness and /or commitment on the part of the company management about the social responsibility of the company. Fourthly, the poor environmental performance of the company may also be attributed to non-disclosure or less disclosure. Finally, the poor enforcement of the Environment Protection Acts is also partly responsible for freeing the companies from disclosure of such information.

Review of Relevant Literature

Vasal administered (Indian Journal of accounting 1998) a study on 44 companies in 1998 and found that 50 percent and 22.2 percent of the companies in the public and private sector respectively disclosed information on their environmental impact through their annual reports. Moreover the practice of preparing stand-alone environmental reports was yet to take roots in India.

Roy (Environment Management and Audit 2000) conducted a study to examine the Indian practices in respect of environmental disclosure in Corporate annual reports. He took a sample of 55 companies including both private and public sector companies by considering the annual reports for 3 years 1987, 1991, and 1996. He observed that the common practice followed by Indian companies in both the sectors over the years regarding environmental disclosure was to offer descriptive information and itemize the same in Director's report. A few companies disclosed information through notes, schedules and a separate social account. He found that the proportion of companies giving this information in the public sector was more than in the private sector.

Paul and Pal (2001) examined corporate environmental reporting in the annual reports of 23 companies for the sample period of 13 years (i.e., from 1986-87 to 1998-99) and concluded that reporting is gaining momentum with the passage of time even in the absence of any compulsion and standards or guidelines.

Bhate (2002) investigated the extent to which consumers of India are aware of environmental issues and it was found that Indians are most involved with environmental issues.

Thomson and Zakarai (2004) examined the extent, nature and form of corporate social and environmental disclosure made by Malaysian companies and observed that the corporate environmental reporting of these companies was poor in quality and low in quantity.

Romlah et al. (2002) studied the practices in Malaysian companies and showed that 74 out of 362 companies (20.44 percent) is environmentally sensitive industries and provide environmental information in their annual reports.

Nuhoglu (2003) also examined environmental reporting practices in Turkish companies and reported that Turkish companies' reports were lower standard and prepared much less seriously vis-à-vis multinational companies' reports.

Rahman and Muttakin (2005) selected 196 companies in Bangladesh for their study out of which 125 are manufacturing companies and the rest 71 are service companies that gives same result.

Shil and Iqbal (2005) conducted a study based on the annual reports of 121 companies in Bangladesh and found that only 13 companies (11 percent) out of 121 disclosed the environment related information in a qualitative way.

Statement of the Problem

Indian companies face strong international competition over the last two decades as international competitors tried to establish their footholds in India. These international firms are disclosing non-financial information including environmental information leading to an enhanced expectation from Indian companies to act responsibly towards the environment and be accountable to the society beyond the traditional role of providing financial account to the shareholders. The EAR can uphold the green image of companies. They can make their annual reports more informative by providing environmental information. This reporting is important for the following reasons.

1. It would aid the discharge of the organization's accountability and increase its environmental transparency.
2. It helps examining of the concept of environment and determining the company's relationship with the society in general and the environmental pressure groups in particular. This helps an organization in seeking to strategically manage a new and emerging issue with its stakeholders.
3. Companies may be successful in attracting funds from 'environmentalist' individuals and groups.
4. Companies producing environment-friendly products may take competitive marketing advantage.
5. Companies may show their commitments towards innovation and change by making environmental disclosures.
6. Environmental reporting may be used to combat potentially negative public options.

In order to make environmental awareness, World Environment Day is observed on June 5 every year. Hence, to improve corporate image concerning socially responsible behaviour, it was expected that an increasing number of Indian companies would report their environmental performance and social issues. However, a little attention has been given to the state of environmental reporting in India. Most companies are not giving priority to expose environmental activities of the company. There might be ample genuine reason for such non disclosure but this has to be corrected. It is to be mentioned here that very few studies have been carried out in this context which trigger the need for the present study.

Objectives of the Study

The broad objective of the study is to critically evaluate the EAR practices in the selected company. However, the specific objectives of this study are:

1. To identify the need for environmental accounting and reporting practices in India.
2. To examine the position of environmental information in the Annual Reports of Neyveli Lignite Corporation Limited, Neyveli during the Study period.
3. To identify the problems involved in environment accounting and reporting practices in Neyveli Lignite Corporation Limited, Neyveli.
4. To suggest some measure as to overcome the problems thereby improving environment accounting and reporting practices in Neyveli Lignite Corporation Limited, Neyveli.

Period of Study

The period of this study is limited to five years ranging from 2007-08 to 2012-13.

Findings

The Environmental disclosure in the annual report of Neyveli Lignite Corporation Limited is qualitative till 2010-2011. It just includes a small paragraph running to some five to six lines containing what measures are taken by the company to control pollution. It did not have a descriptive analysis of quantity of money spent for the same. But in the annual report for the year 2011-2012, it showed a signal to change its qualitative approach and tend to quantify its environmental protection efforts. This is because of the Sustainable Development Guidelines issued by the Department of Public Enterprises which made inclusion of sustainable development mandatory for every public sector enterprise in India.

In the annual report for the year 2012-2013, a separate report on sustainable development is given which quantify the measures taken by the company to set right the environmental damage it causes through its business operation. This sustainable development statement is quantified both in physical and monetary terms. Following are the sustainable development projects approved by Neyveli Lignite Corporation Limited for the period 2012-13. The Board has approved SD Policy and allocated budget amount of Rs 1.28 Cr. to take up these projects for the year 2012-13

- (i) Reclamation and reuse of lands in Mines
- (ii) Development of Eco Tourism Park in Neyveli Township
- (iii) Completion of Residual Life Assessment (RLA) studies of Turbine and replacement of final loop of Re-heater to coil in one Unit (210MW) of TPS-II towards improved efficiency
- (iv) Mandatory training Programme on Sustainable Development for Students
- (v) Sequestration of CO₂ and production of Bio-fuel from flue gas from Thermal Power Plant
- (vi) Pollution Source Apportion Study for Neyveli industrial area
- (vii) Water Management-Recharging of Ground Water
- (viii) Utilisation of fly ash in making Brick/Window and
- (ix) Renewable energy project (Solar PV Power Project).

Suggestions

This study has examined the EAR practices in Neyveli Lignite Corporation Limited, Neyveli. It is encouraging to note that a Company in a developing country such as India has taken immense efforts to make environmental disclosures. The efforts taken by the Company are noteworthy and deserve appreciation, but it is observed that the quantity and quality of disclosures was less satisfactory and poor.

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

- (i) This study indicated that the Company has already given much effort in the field of environmental protection. However, the current accounting system does not reflect such efforts for its stakeholders. So, Company should take the initiative showing such activities in the accounts.
- (ii) Environmental expenditures incurred by the company should be classified into capital expenditures [e.g Purchasing a new Recycling Machine, Tree plantation, Soil remediation] and operating expenditures [e.g., annual operating and maintenance cost of the Recycling Machine, annual operating and maintenance cost of the Tree plantation].

- (iii) Regulatory bodies should develop a standard to guide the practices of Environmental Accounting and Reporting.
- (iv) Research and studies should be encouraged in the field of Environmental Accounting and Reporting.
- (v) The Company should maintain the provision for environmental liability.
- (vi) The Company should show data on environmental expenditure, environmental costs charged to income in the notes to the accounts in their annual reports.
- (vii) The Company should show fines and penalties paid by the company, environmental liabilities of the company, environmental provisions, and environmental costs capitalized in the notes to the accounts in their annual reports.

Direction Towards Further Study

Additional research may be directed into areas such as the following:

- (i) A comprehensive study is necessary, covering a number of years to draw valid conclusions about the underlying trends and techniques of EAR practices in India
- (ii) It is believed that a comparative study of EAR practices in South Asian countries including Bangladesh, India, Pakistan and Sri Lanka will shed more light on EAR in this region
- (iii) A study identifying the users of EAR and examining their perceptions about EAR in India may be considered worth-while and needs urgent attention of future researchers and
- (iv) The role, if any, played by the professional bodies in the development of EAR in India should be elucidated.

Conclusion

To make the environmental accounting an integral part of the overall accounting system at corporate level, all the regulating bodies, accounting associations and the Government should be careful enough and think over different aspects seriously and make provisions for environmental losses and making proper disclosures. Attempts should be made for identification of environmental costs and liabilities, their valuation and measurement, introduction of new costing, appraisal of relevant environmental factors and formulation of long environmental accounting goals. The company should formulate an environmental policy after study and analysis of various acts, rules and regulations regarding environment applicable to it and various impacts on environment due to its working.

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