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EVALUATING THE IMPACT OF ENVIRONMENTAL AUDITING ON FINANCIAL PERFORMANCE: A STUDY OF THE OIL AND GAS SECTOR IN AKWA IBOM STATE, NIGERIA

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Abstract
This study evaluates the impact of environmental auditing on the financial performance of oil and gas companies operating in Akwa Ibom State, Nigeria. The aim is to assess how environmental audits influence financial reporting, operational efficiency, and profitability within the region. The research problem focuses on the challenges faced by companies in balancing environmental compliance with financial growth in a resource-sensitive area. The significance lies in understanding how environmental audits can improve financial outcomes while enhancing corporate responsibility in the local context. The scope of the study includes selected oil and gas companies in Akwa Ibom that have implemented environmental audits over the past five years. A mixed-methods approach is used, combining financial data analysis before and after audits with structured interviews of environmental officers and financial managers. Findings reveal that companies conducting regular environmental audits show improved financial performance due to decreased environmental fines, better resource utilization, and enhanced public perception. However, smaller companies face challenges with audit costs. The study recommends mandatory environmental auditing for all companies in Akwa Ibom's oil and gas sector and government incentives to support audit implementation, promoting both financial stability and environmental sustainability.
Keywords: environmental auditing, financial performance, sustainability, corporate responsibility

INTRODUCTION

The growing global concern over environmental degradation has led to an increased emphasis on corporate environmental responsibility. In industries with significant environmental impacts, such as the oil and gas sector, businesses are increasingly under pressure to adopt sustainable practices that align with environmental regulations and expectations (Khan et al., 2020). One approach to achieving this balance is the implementation of environmental auditing, which ensures that companies monitor, evaluate, and improve their environmental performance. Environmental auditing has been shown to enhance accountability and transparency, leading to better financial and operational outcomes (Chima & Nwokoye, 2019). The oil and gas industry is a major contributor to Nigeria's economy, with Akwa Ibom State being one of the leading oil-producing states in the country (Eyinla & Ukpo, 2019). However, the environmental costs of oil exploration and production in the region are high, including oil spills, gas flaring, and water contamination, all of which negatively impact both the environment and public health (Ikeme, 2020). Companies operating in this sector face increasing scrutiny from both the public and regulatory agencies regarding their environmental practices. These pressures have made environmental auditing a key tool in ensuring compliance with environmental standards and reducing ecological harm (Adekunle, 2021).

While environmental auditing offers numerous benefits, such as improved risk management, enhanced corporate reputation, and reduced environmental liabilities, there are also challenges involved, particularly in terms of cost and implementation (Amadi, 2021). Smaller oil and gas firms in Akwa Ibom State may struggle with the financial burden of regular audits, despite the long-term advantages. Studies have demonstrated that companies adopting environmental audits are more likely to experience positive financial outcomes, as they

mitigate risks, improve operational efficiency, and attract environmentally conscious investors (Egbunike & Okoye, 2017). From a financial perspective, environmental auditing has been shown to improve companies' bottom lines by reducing potential legal fines and operational costs related to environmental damage (Garcia et al., 2018). For oil and gas companies in Akwa Ibom State, the adoption of such audits may offer a strategic advantage in a highly competitive industry, as it not only enhances regulatory compliance but also boosts investor confidence and corporate social responsibility efforts (Enang, 2019).

Given these dynamics, this study seeks to evaluate the impact of environmental auditing on the financial performance of oil and gas companies operating in Akwa Ibom State. By focusing on this region, the research aims to provide localized insights into how companies can better align their financial goals with environmental sustainability. Additionally, the study will contribute to the growing body of knowledge on the intersection of environmental management and corporate financial performance, particularly in developing economies like Nigeria (Ugwuanyi & Chukwuma, 2020).

Statement of the Problem

Despite the potential benefits of environmental auditing, its adoption among oil and gas companies in Akwa Ibom State remains limited. Many companies, particularly smaller firms, perceive environmental audits as expensive and resource-intensive (Adekunle, 2021). This has led to reluctance in implementing these audits, even though previous studies suggest that they can reduce long-term environmental liabilities and operational costs (Garcia et al., 2018). There is insufficient research on the direct financial impact of environmental audits on companies in the oil and gas sector in Akwa Ibom. While some studies suggest that environmental audits can improve financial performance by reducing fines and improving efficiency (Chima & Nwokoye, 2019), evidence specific to Akwa Ibom's context is scarce, making it difficult for companies to justify the investment. Previous research highlights the potential of environmental audits to enhance corporate social responsibility (Egbunike & Okoye, 2017), but there is limited exploration of this in Akwa Ibom's oil and gas sector. The lack of localized studies leaves a gap in understanding how these audits contribute to corporate reputation and public trust in the region. The research therefore seeks to answer the following questions

i. How does environmental auditing impact the financial performance of oil and gas companies in Akwa Ibom State?
ii. What are the financial benefits and challenges faced by oil and gas companies in Akwa Ibom when conducting environmental audits?
iii. How does environmental auditing contribute to corporate social responsibility and reputation in Akwa Ibom's oil and gas sector?

Research Objectives

i. To evaluate the relationship between environmental auditing and financial performance of oil and gas companies in Akwa Ibom State.
ii. To identify the specific financial benefits and challenges associated with implementing environmental audits in oil and gas companies in Akwa Ibom.
iii. To assess the role of environmental auditing in enhancing corporate social responsibility and reputation within the oil and gas sector in Akwa Ibom State.

Literature Review

Environmental auditing refers to the systematic, documented, periodic, and objective evaluation of how well an organization, its management, and equipment are performing in terms of protecting the environment. It is a crucial tool for ensuring compliance with environmental regulations, identifying risks, and improving environmental performance (Olagunju & Adeyemi, 2020). Environmental audits assess the extent to which a company adheres to environmental laws and regulations while also identifying areas where improvements can be made to reduce environmental impact and enhance sustainability (Amadi, 2021). Previous studies have

established that environmental auditing not only improves corporate environmental management but also offers broader organizational benefits such as risk reduction and enhanced stakeholder trust (Chima & Nwokoye, 2019). Companies that regularly conduct environmental audits tend to better align their operations with global sustainability standards, thereby enhancing their competitiveness in the global market (Khan et al., 2020). In oil and gas industries, where environmental degradation due to oil spills, gas flaring, and pollution is a significant issue, environmental auditing is particularly essential for mitigating negative impacts on the ecosystem and ensuring regulatory compliance (Enang, 2019).

The oil and gas sector has long been identified as a major contributor to environmental degradation, especially in resource-rich regions like the Niger Delta, which includes Akwa Ibom State. The sector's activities often result in oil spills, soil contamination, water pollution, and biodiversity loss, creating significant ecological and socio-economic challenges (Ikeme, 2020). Given these environmental risks, the adoption of environmental auditing in the oil and gas industry has become increasingly important. Garcia et al. (2018) highlight that environmental audit in the oil and gas sector serve as a preventive measure, helping companies detect potential environmental risks before they result in substantial harm. Studies by Adekunle (2021) indicate that companies implementing environmental auditing experience fewer environmental incidents, improved regulatory compliance, and enhanced operational efficiency. This suggests that environmental auditing plays a critical role in safeguarding both the environment and the long-term sustainability of the oil and gas sector. However, despite these advantages, the adoption of environmental audits remains limited in certain regions, including Akwa Ibom State, due to perceived high costs and lack of awareness among smaller companies (Amadi, 2021). This limitation underscores the need for further research on the financial and non-financial impacts of environmental auditing, particularly in localized contexts.

Corporate social responsibility (CSR) refers to a company's efforts to contribute to societal goals, including environmental protection, beyond its financial obligations. In recent years, CSR has become a major focus for companies in the oil and gas sector due to the significant environmental and social impacts of their activities. Environmental auditing is increasingly recognized as a tool that can enhance CSR by demonstrating a company's commitment to environmental sustainability and regulatory compliance (Adekunle, 2021). Companies that implement regular environmental audits are better positioned to build trust with local communities, regulators, and other stakeholders (Egbunike & Okoye, 2017).

In Nigeria's oil and gas sector, CSR is particularly important due to the industry's reputation for contributing to environmental degradation. Environmental audits can serve as evidence of a company's dedication to mitigating its environmental impact, thereby improving its reputation and fostering stronger relationships with local communities (Ikeme, 2020). Research by Enang (2019) shows that, companies that engage in robust environmental auditing and CSR initiatives are more likely to enjoy enhanced public trust and community support. This can lead to fewer conflicts with local populations and a more stable operating environment. However, the impact of environmental auditing on CSR in Akwa Ibom State has not been fully explored. The absence of localized studies creates a gap in understanding how audits influence public perception and corporate reputation in the region. This study aims to fill this gap by investigating the role of environmental auditing in shaping CSR practices and public trust within Akwa Ibom's oil and gas sector.

Despite the potential benefits of environmental auditing, there are several challenges associated with its implementation, particularly in developing countries like Nigeria. One major challenge is the cost of conducting comprehensive environmental audits, which can be prohibitive for smaller companies (Amadi, 2021). Garcia et al. (2018) found that the financial resources required to conduct regular audits can deter companies from adopting these practices, especially in regions where regulatory enforcement is weak or inconsistent. This issue is particularly relevant in Akwa Ibom State, where many oil and gas companies are either small or medium-sized enterprises that may lack the financial capacity to undertake regular audits.

This study is grounded in stakeholder theory, which emphasizes the importance of addressing the needs and concerns of all stakeholders, including investors, employees, customers, and the community, in achieving long-term corporate success. Stakeholder theory suggests that companies that integrate environmental auditing into their operations are more likely to meet the expectations of various stakeholders and achieve sustainable financial performance (Freeman, 1984). By conducting environmental audits, companies not only comply with environmental regulations but also demonstrate their commitment to broader societal goals, thereby enhancing their reputation and long-term viability (Garcia et al., 2018).

The research methodology for this study adopts a mixed-methods approach, combining both quantitative and qualitative research methods to provide a comprehensive understanding of the impact of environmental auditing on financial performance and corporate social responsibility (CSR) in the oil and gas sector of Akwa Ibom State. The study is exploratory and descriptive in nature, designed to collect both primary and secondary data.The population for this study comprises selected oil and gas companies operating within Akwa Ibom State. A purposive sampling technique was used to select companies that have implemented environmental auditing practices over the past five years. These companies are chosen based on their relevance to the research questions and their ability to provide valuable insights. A sample size of 15 companies was selected for in-depth analysis.

The primary data collection involves structured questionnaires and semi-structured interviews. The questionnaires were distributed to financial managers, compliance officers, and environmental managers within the selected companies to gather quantitative data on the financial performance before and after implementing environmental audits. These include questions related to cost savings, revenue changes, and operational efficiency. Likert-scale questions measure the extent to which respondents perceive the effectiveness of environmental audits on their company's performance. Semi-structured interviews with key stakeholders were conducted to collect qualitative data on the perceived impact of environmental auditing on CSR, corporate reputation, and public trust.Secondary data were obtained from the financial reports of the selected companies, as well as published research articles, government reports, and environmental audit reports. These secondary data were used to validate the primary data and provide a broader context for understanding the findings.

Data analysis involves both descriptive and inferential statistics. The quantitative data collected from the questionnaires were analyzed using Statistical Package for the Social Sciences (SPSS) software. Descriptive statistics, such as frequencies and percentages, summarize the responses, while inferential statistics, such as regression analysis, were used to determine the relationship between environmental auditing and financial performance. The qualitative data collected from interviews were analyzed using thematic analysis, which involves coding and categorizing responses to identify recurring themes and patterns.

Results and Discussion

Table 1: Descriptive Statistics of Respondents' Perception on Environmental Auditing Impact

Perception	Mean	Standard Deviation (SD)
Environmental auditing improves revenue	4.25	0.74
Environmental auditing reduces operational costs	4.10	0.81
Environmental auditing enhances CSR practices	4.50	0.62
Environmental auditing improves public trust	4.35	0.68
Environmental auditing is cost-effective	3.80	0.89

Source: the researcher (2024)

From Table 1, respondents largely agree that environmental auditing positively impacts their financial performance and CSR practices. The highest mean score was for "environmental auditing enhances CSR practices" (Mean = 4.50, SD = 0.62), indicating that most companies find it beneficial for their social

responsibilities. The lowest score was for "environmental auditing is cost-effective" (Mean = 3.80, SD = 0.89), reflecting mixed perceptions about the financial burden of implementing audits.

The results of the regression analysis are presented in Tables 2 and 3.

Table 2: Regression Results for (Environmental Auditing and Financial Performance)

Model	B	Standard Error	t-value	p-value
Constant	1.850	0.256	7.227	0.001
Environmental auditing (X_1)	0.582	0.089	6.539	0.000
R^2	0.447			

Source: (SPSS) 2024

The results in Table 2 show that environmental auditing has a significant positive effect on financial performance (B = 0.582, t = 6.539, $p < 0.05$). The R^2 value of 0.447 suggests that environmental auditing explains 44.7% of the variation in financial performance, confirming that the implementation of environmental auditing is associated with improved financial outcomes.

Table 3: Regression Results for Environmental Auditing and CSR

Model	B	Standard Error	t-value
Constant	2.052	0.220	9.327
Environmental auditing (X_2)	0.731	0.077	9.493
R^2	0.576		

Source: (SPSS) 2024

The results in Table 3 indicate a significant positive relationship between environmental auditing and CSR (B = 0.731, t = 9.493, $p < 0.05$). The R^2 value of 0.576 means that environmental auditing explains 57.6% of the variation in CSR practices, highlighting its strong influence on enhancing corporate social responsibility

Findings

The findings of the study align with previous research, confirming that environmental auditing has a substantial positive impact on both financial performance and CSR practices in the oil and gas sector. The significant positive correlation with financial performance supports the notion that environmental audits help companies identify cost-saving opportunities, enhance operational efficiency, and improve long-term profitability (Garcia et al., 2018). Furthermore, the strong relationship between environmental auditing and CSR practices suggests that companies that invest in environmental audits are better able to demonstrate their commitment to social responsibility, thereby enhancing their public image and stakeholder trust (Chima & Nwokoye, 2019). However, the study also reveals that perceptions of the cost-effectiveness of environmental auditing vary among companies, particularly smaller firms. This aligns with Amadi (2021), who noted that the high initial costs of audits may deter companies from adopting them, despite the potential long-term financial benefits.

Conclusion

The study confirms that environmental auditing positively influences both financial performance and corporate social responsibility in the oil and gas sector of Akwa Ibom State. The findings suggest that companies stand to gain both financially and socially by adopting robust environmental auditing practices. Therefore, oil and gas companies in Akwa Ibom are encouraged to prioritize environmental audits, not only for regulatory compliance but also for their financial and CSR benefits.

Recommendations

i. Oil and gas companies in Akwa Ibom State should adopt regular environmental audits as a key component of their financial and CSR strategies. This will help them enhance operational efficiency, increase profitability, and boost their corporate image.
ii. The government should consider providing incentives or subsidies for smaller firms that may find the cost of environmental auditing prohibitive. This could encourage wider adoption of the practice across the industry.
iii. Oil and gas companies should invest in training their environmental and financial management staff to better understand the benefits of environmental audits and how to maximize their positive impact on financial and CSR outcomes.

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