

Emerging Paradigms In Environmental Audit

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Introduction

Organizational response to the environment and the role of the accounting profession for the environmental protection are fairly recent developments. Environmental issues are business issues and have considerable implications for audit in all its semblance leading to a separate specialized area viz., environmental auditing. It is seen as an essential element in any organizations environmental response. In view of their core competencies in the field of auditing, chartered accountants can play a significant role in the environmental protection - which is one of the essential objectives of the environmental auditing

What is environmental auditing?

Environmental auditing is essentially an environmental management tool for measuring the effects of certain activities on the environment against set criteria or standards. Depending on the types of standards and the focus of the audit, there are different types of environmental audit. Organizations of all kinds now recognize the importance of environmental matters and accept that their environmental performance will be scrutinized by a wide range of interested parties. Environmental auditing is used to

- Investigate
- Understand
- Identify

These are used to help improve existing human activities, with the aim of reducing the adverse effects of these activities on the environment. An environmental auditor will study an organisation's environmental effects in a systematic and documented manner and will produce an environmental audit report. There are many reasons for undertaking an environmental audit, which include issues such as environmental legislation and pressure from customers.

Definitions

The term 'audit' has its origins in the financial sector. **Auditing**, in general, is a methodical examination - involving analyses, tests, and confirmations - of procedures and practices whose goal is to verify whether they comply with legal requirements, internal policies and accepted practices.

The International Chamber of Commerce (ICC) produced a definition in 1989 which is along the same lines

A management tool comprising systematic, documented, periodic and objective evaluation of how well environmental organisation, management and equipment are performing with the aim of helping to safeguard the environment by facilitating management control of practices and assessing compliance with company policies, which would include regulatory requirements and standards applicable.

The key concepts, which occur in all the definitions, are as follows.

- **Verification:** audits evaluate compliance to regulations or other set criteria.
- **Systematic:** audits are carried out in a planned and methodical manner.
- **Periodic:** audits are conducted to an established schedule.
- **Objective:** information gained from the audit is reported free of opinions.
- **Documented:** notes are taken during the audit and the findings recorded.
- **Management tool:** audits can be integrated into the management system

Environmental auditing v/s Environmental impact assess

Environmental auditing should not be confused with environmental impact assessment (EIA). Both environmental auditing and EIA are environmental management tools, and both share some terminology, for example, 'impact', 'effect', and 'significant', but there are some important differences between the two.

Environmental impact assessment is an anticipatory tool, that is, it takes place before an action is carried out (*ex ante*). EIA therefore attempts to predict the impact on the environment of a future action, and to provide this information to those who make the decision on whether the project should be authorised. EIA is also a legally mandated tool for many projects in most countries.

Environmental auditing is carried out when a development is already in place, and is used to check on existing practices, assessing the environmental effects of current activities (*ex post*). Environmental auditing therefore provides a 'snap-shot' of looking at what is happening at that point in time in an organisation.

The International Organization for Standardization (ISO) has produced a series of standards in the field of environmental auditing. These standards are basically intended to guide organisations and auditors on the general principles common to the execution of environmental audits. These are addressed elsewhere in this module.

Environmental auditing means different things to different people. Environmental auditing is often used as a generic term covering a variety of management practices used to evaluate a company's environmental performance. Strictly, it refers to checking systems and procedures against standards or regulations, but it is often used to cover the gathering and evaluation of any data with environmental relevance - this should actually be termed an **environmental review**. The distinction between an environmental audit and an environmental review has become blurred, but the table in 2.1.1 should enable you to understand the differences between the two.

Why Environmental Audit

Business can assess the environmental impact of their operations•

Corporate decisions are spoiling company's market for its products, destroying the source of essential supply, damaging or polluting the very infrastructure that makes usage and demand of the product grow

- EA can highlight areas of inefficiencies in process• e.g. where the amount of resources used are out of proportion to the amount of saleable items/services produced. •

- It can highlight excessive wastes•

- Can provide opportunity for business to decrease its wastes output and reduce the cost of waste treatment or waste disposal

Distinction between An Environment review and environmental audit

| | Review | Audit |
|---|---|--|
| What is the Objective? | Determine which performance standards should be met(company decides to reduce total organic compound emissions from 100 tonnes to 10 tonnes/year) | Verify performance against these standards(eg company checks that it really has reduced to 10 tonnes/year) |
| Which environmental issues are covered? | All known environmental issues with or without explicit standards to measure performance | Only issues for which standards exist(eg regulatory requirements, internal company standards, or good ,management practices) |
| How often are they required? | Before developing environmental management systems or before and after any significant changes in operations or practices | Regulatory and or a pre planned cyclical basis |
| What are geographical boundaries? | Whenever the business could have an environmental impact in the life of the product(ie raw material selection, transportation, manufacturing, | Usually well defined geographical boundaries (eg limited to site, distributiion companies or local planning authority) |

Irrespective of the process that is actually being undertaken, some organisations prefer not to use the term 'audit'. In some cases, therefore, an organisation may call the procedure of measuring environmental performance against set criteria an environmental review, an environmental assessment, or another term used specifically for their own purposes (by now, you should be able to distinguish between these terms, and be able to determine which is which).

In addition, the term 'audit', coming from the financial sector, may suggest that financial audits (whose result typically is the Annual Report) and environmental audits are very similar. Some areas where they differ are highlighted in the table.

| | Financial audits | Environmental Audits |
|----------------------|--|--|
| Legal basis of audit | Part of regulatory (legal) process, organisations have to perform it | With few exceptions, environmental audits are voluntarily affairs. |
| Frquency | Annual affairs | Whenever the organization decides to perform it |
| Who does it | Performed by expert staff, certified to do so | Performed by external and/or internal staff. Professional indemnity considerations, |
| Methodology | Financial audits are based on comparative standards which are publicly available- General Principles of accounting | Varies very much between auditors and companies |
| Access to audit | The results are public documents in the form of annual reports | Very few audits are public, although some results are often published in the environmental Reports |

Steps for EA Audit•

The International Chamber of Commerce presents the different steps of an EA as follows:•

- 1) Pre-audit activities: which include: – Selection and scheduling of facility to audit, –
- 2) Selection of audit team, –
- 3) Contact with facility and planning of the audit. •
- 4) Site activities: which are divided into 5 steps: – First understanding of internal controls, – Assessment of internal controls, – Gathering of audit evidence, – Evaluation of audit findings, – Report of findings to facility. •
- 5) Post audit activities: which include: – Production of a draft report, – Production of a final report, – Preparation and implementation of an action plan, – Monitoring of action plan.

Scope of Environment Auditing

1. Material Audit : The thrust areas of material audit is the effective utilization of materials, conservation of materials and minimizing wastages in different processes.
2. Energy Audit : It deals with overall energy consumption, minimizing pollution etc.
3. Water Audit : Evaluation of raw water intake facilities and evaluation of water treatment facilities.
4. Health and Safety Audit : Health and safety measures are examined e.g. occupational diseases, compliance with labour laws, adequacy of safety measures etc
5. Environmental Quality Audit : It examines noise level, status of existing air quality, review of greening program undertaken by the enterprise, Installation and functioning of anti pollutant equipment.
6. Water Disposal Audit : Review of waste disposal measures relating to solid and hazardous wastes, recycling etc
7. Engineering Audit : It analyses the aspect relating to efficiency of plant and machinery, engineering designs, cost effective methods of production etc.

Benefits

1. Facilitating comparison and interchange of information between operation or plants,
2. Increasing employee awareness of environmental policies and responsibilities
3. Identifying cost-savings including those resulting from waste minimization,
4. Evaluating training programmes and providing data to assist in training personnel
5. Providing an information base for use in emergency response arrangements,
6. Assuring an adequate, up-to-date environmental database for internal management awareness and decision making in relation to plant modifications, new plans, etc.
7. Helping to assist relations with authorities by convincing them that complete and effective audits are being undertaken, by informing them of the type of procedure adopted.

Environmental Audit : Indian Status

In India there is no Statutory requirement for EA in Corporate sector or in the Government sector. Few private sector companies like TISCO, ITCare periodically conducting EA. In India a procedure for EA was first notified under the Environment Protection Act in 1986 by the Ministry of Environment of Forests. This notification requires submission of an " Environmental Audit Report" or statement to the concerned state Pollution Board. As per the Indian Companies Act, 1956, details relating to energy

consumption/energy conservation are presented in the Director's Report as annexure and it highlights the environment related policies/problems.

Disclaimer

This paper has been compiled based upon documents and information available in public domain. Anybody wishing to act on the basis of this paper should do so only after cross checking with original document. We do not present any opinion on any matter whatsoever and matters expressed herein should not be taken as directive or opinion for any reason. We have tried to highlight the significant changes

Sources:

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