

ENVIRONMENTAL AUDIT PRACTICES IN INDIA

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ABSTRACT

Environmental audit is a highly skill-oriented task. It calls for not only a high level of professional audit skills, but also a deep understanding of environmental issues. The environmental auditor must also be familiar with international treaties and conventions on environmental issues apart from having an excellent grasp of the national policy, strategies and programmes for environmental protection and conservation and climate change control. Since this is an emerging area, the auditor will also have to periodically update himself with the latest developments on the subject, nationally as well as internationally.

Basically environmental audit could encompass financial audit, regulatory and compliance audit and performance audit. Government tries to ensure that the company's operations are environmentally sensitive and the objectives of the company are not contradictory to its own policies on sustainable development.

At present, the corporation carries out regular environment audit through the consultant from environment. Upon the completion of the Environmental Audit, an environmental statement for the financial year ending 31st march of every year is produced and submitted to the State Pollution Control Board on or before 30th day of September every year.

Keywords: Environmental Audit

INTRODUCTION

Environmental audit is a highly skill-oriented task. It calls for not only a high level of professional audit skills, but also a deep understanding of environmental issues. The environmental auditor must also be familiar with international treaties and conventions on environmental issues apart from having an excellent grasp of the national policy, strategies and programmes for environmental protection and conservation and climate change control. Since this is an emerging area, the auditor will also have to periodically update himself with the latest developments on the subject, nationally as well as internationally.

We are familiar with the term 'audit' in the sense of examination of financial accounts and records. Environmental Audit on the other hand refers to verification and assessment of

environmental measures in an organisation. Some of the important definition of Environmental Audit is highlighted here under:

“A management tool comprising a systematic documented, periodic and objective evaluation of the performance of the organisation, management and equipment designed to protect the environment with the aim of :

- Facilitating management control of environmental practices.
- Assessing compliance with company policies, including observance of the existing regulatory requirements”(commission of the European community’s Eco-management and Audit Regulation)

“A systematic examination of performance to ensure compliance with requirements during the operational phase of industrial activity including the following components;

- Full management commitment
- Audit team objectivity.
- Professional competence.
- Well defined and systematic approach.
- Written reports.
- Quality assurance, and
- Follow up.

(International chamber of commerce-position paper on environmental audit adopted November 29, 1989)

According to the World Bank, environmental audit is a methodical examination of environmental information about an organization, a facility or a site, to verify whether, or to what extent, they conform to specified audit criteria. The criteria may be based on local, national or global environmental standards. Thus, it is a systematic process of obtaining and evaluating information about environmental aspects. In view of the increasing importance assigned to environmental issues and sustainable development, both at the national and international level, environmental audit has gained substantial currency and materiality. The allocation of substantial amounts of public funds for implementing environment programmes and schemes in the annual budgets enhances the scope of environmental audit

Frame work of Environmental Audit

- financial audit
- Regulatory and compliance audit
- performance audit

Basically environmental audit could encompass financial audit, regulatory and compliance audit and performance audit

Objectives and Scope of Environmental Audit

Objectives of Environmental Auditing

The following are some of the objectives of Environmental Auditing:

1. The main objective of Environmental Auditing is to see that the natural resources are properly utilised.
2. To control the costs incurred on procuring the natural resources and to ensure that they have been properly classified.
3. To see that natural resources have been properly shown in balancesheet as they are the nation's valuable assets.
4. To ensure that the natural resources are utilised for industrial development and for national progress.
5. During production processes when natural resources are utilised, some adverse environmental effects are produced and pollution is created. So the objective of such an audit is to see that proper steps have been taken to control or to prevent such adverse effects like pollution.
6. To see that proper steps have been taken for maintaining health and welfare of the community and also for disposal of harmful wastes and social risk.

Environmental audit is to respond to the expectations of the citizens by providing independent, credible and objective verification of the information provided by government organisation and private organisation with respect to their activities and their impact on the environment. Objectives of each audit will depend on the type of the audit carried out, namely, financial audit, regulatory and compliance audit and performance audit.

Financial Audit: The objective of financial audit is to enable the auditor to express an opinion on whether the financial statements are prepared in all material respects in accordance with an identified financial reporting framework. Material respects can be directly linked to the environmental costs, obligations, impacts and outcomes. The audit of financial statements also requires the auditor to consider environmental matters as part of regularity audit. The International Auditing Practices Committee defines environmental matters in a financial audit as;

- Initiatives to prevent/abate/remedy damage to the environment or to deal with the conservation of non-renewable and non-renewable resources required by legal, contractual or voluntary commitments.
- Consequences of violating environmental laws and regulations, as also of vicarious liability.
- Consequences of environmental damage done to others or natural resources.

Regularity and Compliance Audit: The objective of regularity audit is to assess the completeness and accuracy of the information and data provided. In compliance audit, the objective will be to provide an assurance that governmental activities are conducted in

accordance with relevant environmental law, regulations, standards and policies, both at the national and local levels as well as international levels (where appropriate and relevant).

Performance Audit: The objectives of performance audit are manifold and may include ensuring that indicators of environmental related performance (where contained in accountability reports) fairly reflect the performance of the reported entity. Further, the audit verifies that the environmental programmes are conducted in an economical, efficient and effective manner. It also aims at improving the performance and accountability of government agencies and bodies by adding value through an effective examination of environment-related policies, strategies and programmes. Apart from verifying the extent to which the programme has achieved its objectives, the performance audit will also examine the intended and unintended, direct and indirect other impacts of programmes and activities subjected to audit as also the adequacy of data for evaluating such impacts. Identification of risks caused by pollution to health and environment would also form part of such exercise. Performance audit of environmental issues will also include the existence or adequacy of environmental policies and laws and strategies. Other objectives would include the compliance with commitments, if entered into or legally obligated, with international treaties and commitments, where applicable. Adequacy of infrastructure to achieve the environmental targets of the agency and adequacy of funding will also be the subject of performance audits.

There should be inclusion of the following areas within the scope of performance audit of environmental issues:

- Audit of government monitoring of compliance with laws;
- Audit of government's environment programmes;
- Impact of other programmes on environment;
- Audit of Environment Management systems; and,
- Evaluation of proposed environmental policies and programmes

Scope of Environmental Audit

Financial Audit: The primary purpose of financial audit is to verify whether the accounts are properly prepared, are complete in all respects and presented with adequate disclosures. Apart from the examination of books of accounts and financial statements for compliance with standards and rules, completeness, accuracy and disclosures, the audit will also focus on items affected by environmental matters, particularly liabilities, contingencies, commitments, asset impairments provisions etc. An environmental audit from a financial perspective is conducted to ensure that public funds were spent efficiently and for their intended purposes.

During an audit of financial statements related to environmental matters, the following issues will merit special attention:

- Initiatives to prevent, abate, or remedy damage to environment;
- Conservation of renewable and non-renewable resources;

- Consequences of violating environment laws, rules and regulations;
- Consequences of vicarious liability imposed by the government, courts etc.

Audit of financial statements and the establishment of its scope will find additional application in respect of the audit of Government and private companies.

Compliance Audit: Compliance audit with respect to environmental issues will relate to providing assurance that governmental and private companies activities are conducted in accordance with the relevant laws, rules, notifications, regulations and standards as also policies and strategies.

Compliance with commitments made under International Treaties and Conventions will also need verification, where applicable. Governmental agencies concerned with environmental matters are legally obliged to exercise stringent oversight and control on specified sectors and human activities and the scope of compliance audit will extend to verifying the process adopted by them in fulfilling their statutory role. For instance, environmental audit from compliance perspective can examine the enforcement of environmental regulations on toxic substances, the transportation of hazardous hospital waste, or the protection of endangered species. Auditors may also examine whether government activities are conducted according to relevant environment laws, standards and policies, both at the national and international levels.

Performance Audit: The most important aspect of the environmental performance audit is to ensure that the indicators of environment-related performance fairly reflect the performance of the entity and that the environment programmes do yield value for money. The performance audit will also provide credible assurance on the performance of the entity with regard to compliance with established law, rules, regulations and standards. The adequacy or absence of legal and other instruments to safeguard the environment will also be the subject matter of the examination. The strength and weakness of the government's policy framework to mitigate and adapt to global warming and environment degradation needs to be analyzed, with the assistance of experts in the field, where called for.

The audit will also embrace a detailed examination of selected environmental programmes of the government and the agencies with a view to offer a fair and objective opinion on the level of their performance. The direct and indirect impacts of other governmental programmes on environment would also be subject to review. Availability and the level of efficiency of an Environment Management System (EMS) and its compatibility with national or international standards should be tested as part of the exercise. Finally, from performance perspective, environmental audits may embrace audits of environmental indicators, programmes, and policy decisions to see if those activities were completed economically, efficiently and effectively.

Environmental audit practices in India

In India, recognising the importance of environmental audit, procedure for environmental audit was first notified under the environment (protection) Act, 1986 by the Ministry of Environment of forests (vide their notification No. GSR 329(E) on 13th march, 1992). Under this every person carrying on an industry, operation or process requiring consent under section 25 of the water (prevention and control of pollution) Act. 1974 or under section 21 of

the Air (prevention and control of pollution) Act, 1981 or both or authorisation under the hazardous wastes (Management and Handling) rule of 1989 issued under the environment (protection) Act, 1986 is required to submit environment audit report. The Environment Audit report has been renamed as environmental statement in 1993. The statement is required to be submitted to be concerned pollution control boards. The prescribed Performa has nine parts (part A to part I.)

Details of Performa form V

PARTS	DESCRIPTION
PART A	Name and address of owner/occupier; category of industry; production capacity; year of establishment, and date of last Environmental statement submitted
PART B	Water and raw materials consumption- Water consumption is to be indicated for the process, cooling and domestic purposes, and consumption of process water and raw materials is to be shown product-wise per unit of product output. A code may be used in place of the name of a raw materials if disclosing its details would violate and contractual obligation.
PART C	Pollution discharged to environment per unit of output for the parameters specified in the consent showing both quantity per day and concentration of pollutants of water and air and indicating with reasons the percentage of variation from prescribed standards.
PART D	Hazardous wastes from the process and from the pollution control facilities during the year under report and the previous year.
PART E	Solid wastes from the process and from the pollution control facilities, indicating also the quantities recycled or re-utilized, sold or disposed of, during the year under report and the previous year.
PART F	The characteristics, in terms of competition and quantity, of hazardous as well as solid wastes, indicating also the disposal practice adopted for both the categories of wastes.
PART G	Impact of pollution abatement measures on conservation of natural resources and on the cost of production.
PART H	Additional measures/ investments proposals for environmental protection including prevention and abatement of pollution.
PART I	Any other particulars related to improvement of the quality of environment.

Environmental Laws

In India certain laws have been enacted for pollution control to protect the environment. Environmental auditing is needed to see that such laws have been abided by some of the laws are as follows:

1. The Water (Prevention and Control of Pollution) Act, 1974, as amended in 1988.
2. The Air (Prevention and Control of Pollution) Act, 1981 as amended in 1987.
3. The Water (Prevention and Control of Pollution) Cess Act as amended in 1987.

4. The Environment (Protection) Act, 1986.
5. Motor Vehicles Act, 1939 as amended in 1988.
6. The Public liability Insurance Act, 1991.
7. The Factories Act, 1947 as amended in 1987.

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CONCLUSION

Pollution of environment has assumed serious dimensions. Various laws and regulations controlling pollution of environment have led the corporate sector to take actions.though any type of information regarding investment for pollution control cannot be obtained through environmental statement, but it serves the purpose of communication with the stakeholders. Environmental statement is considered the most effective mode of environmental communication. An environmental statement is a document published by company to make communication with stakeholders about the relevant environmental issues. Companies are preparing Environmental Statement to show their responsibility towards the society and environment. They are submitting Environmental Statement on a regular basis to the concerned State Pollution control Board.

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