An Overview on the Sustainable and Environmental Auditing and Reporting Role in Indian Companies

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***Abstract*— Earth's resources are in short supply. The unique commodities may be used in a variety of ways, either directly or indirectly, by a variety of business entities. As a result, the Earth is burdened and ecosystems and climate aren't being protected as effectively as they may be. The present state of the ecosystem makes maintaining it an intriguing challenge. It is important for businesses to keep track of how their operations affect the environment, and environmental accounting is a way to do this in financial terms. Deforestation and waste are two of the most common criticisms of accounting. It is the goal of this research to explain the justification for doing an environmental audit, as well as the primary benefits and costs of conducting an environmental audit, and to discuss environmental costs on environmental accounting in detail. Corporate success and long-term viability have been shown to go hand in hand. India's corporate reporting on sustainability has been more important over the last several years. While leading standards such as the Global Reporting Initiative (GRI) have made significant progress in defining the types of information that companies should publicly disclose, sustainability reports should be placed in a system that can effectively use the information and cause the companies to change their policies and practises.**

***Index Terms:* Financial Statements, Auditing, Reporting, Sustainability, Indian Companies, etc.**

I.INTRODUCTION

The reliability of financial accounts and the efficiency of commercial organisations, the capital markets, and the economy as a whole is greatly enhanced by auditing. With globalisation and its associated hazards of conducting business, changing corporate climate and growing complexity in information technology, auditors' job has gotten more onerous. Unprecedented opportunity has resulted in an expansion of businesses that have more complicated transactions and highly computerised control systems like advanced manufacturing technology that is employed in factories. Although auditing practises have evolved throughout time, they have not kept pace with the ever-changing corporate landscape. Audit tests are more likely to be flawed if statistical sampling methods are used instead of random selection. Computer-aided auditing methods (CAATs) have their own set of issues to deal with. They often fall short in their ability to handle the real-time data streams of today's commercial environment.. It is because of this that they are unable to identify suspicious transactions, such as possible frauds or abnormalities.

Accounting may be defined in a variety of ways. As a result, this research relied on the definition provided by the American Accounting Association (AAA). This is due to the fact that it is commonly recognised in accounting books. To help people make well-informed decisions, the AAA defines accounting as 'the process of finding, measuring, and presenting economic and financial facts' (Olojede). "The use of financial statement information to make economic choices is widely accepted." A user's desire to 'predict, compare, and evaluate' choice possibilities should be supported with accounting information. When financial statements accurately reflect an organization's 'economic content,' its usefulness, dependability, and comparability all improve.

Performing an audit is an independent study of the financial statements to ensure that they are accurate. The financial statements generated by the company's directors are audited by an independent auditor. The Committee on Basic Auditing Concepts of the American Accounting Association (AAA) has come up with a definition that is more acceptable. If we go by Arens and colleagues' definition, auditing is 'a systematic process of objectively obtaining and evaluating evidence regarding claims about economic actions and events in order to ascertain the extent to which these claims correspond with established criteria and communicating the results to interested users.' Professionalism is implied by this need. Be thorough, impartial and analytical in your approach to your job. And convey your findings to the stakeholders in an effective manner.

One of the most important components of a company's overall knowledge base is its accounting information. A third party is brought in to verify the agent's report because of the inherent conflict of interest and lack of direct control between the principal and the agent. Auditing adds credibility, which improves the quality of the financial statements' information. When interested parties or organisations couldn't get the information or assurance they required on their own, the demand for auditing arose. This is a social control system that monitors and evaluates behaviour, as well as enforcing responsibilities and responsibility. Agency theory is all about this. Mautz and Sharaf said that the major goal of auditing is to assess property accounting's measurement and communication. 'Accounting information must be trustworthy,' they said. Auditing has no value until such is the case.

The theories of agency, accounting, and auditing are all interwoven with one another. Despite the fact that auditing and accounting are distinct, the two are intertwined. Financial auditing is different from accounting in that it involves an independent inspection in order to ensure that the financial statements are accurate. When an auditor takes on the role of creating financial statements, he or she is no longer acting as an auditor but rather as an accountant. The scope and nature of the task should be clearly stated in the letter of engagement. The auditor's independence might be eroded if he or she has conflicting tasks.

II. IMPACT OF COVID-19 ON FINANCIAL REPORTING AND AUDITING

Covid-19's impact on financial reporting and audit engagements is complicated and has caused in issues for management, those in governance (TCWG), and auditors. Unprecedented uncertainty surrounds many of the core parts of financial reporting, such as the economy, future profitability, and more. There is likely to have a significant impact on financial reporting in the near and maybe medium term.

The present ambiguity may make it more difficult to acquire adequate and relevant audit evidence to establish an independent opinion regarding the reasonableness of management's estimates and judgements. There are likely to be concerns that were not previously experienced that now need to be taken into account if preparers and auditors do not participate in talks about the effect early in the preparation period and throughout the audit process. As a result of travel limits and home-stay constraints, both the preparers and auditors are likely to be impacted by the audit engagement. When it comes to generating financial data, companies may use a variety of methods and control mechanisms. The use of different technological tools by audit companies may also have shifted to remote working.

To do their jobs ethically and in the public interest, auditors will have to employ a great deal of professional judgement and scepticism. These ISAs are principle-based and continue to be used in their entirety by the International Accounting Standards Board (IAASB). In addition, auditors must take into account the requirements of any applicable national legislation. Integrity, objectivity, professional competence and due care, confidentiality, and professional conduct are all important aspects of the IESBA International Code of Ethics for Professional Accountants (which includes International Independence Standards).

III. ENVIRONMENTAL AUDIT

Pressures from environmental legislation, environmental liabilities and insurance costs, investment and decisions to buy facilities, in-depth investigation of specific issues, corporate image and marketing opportunities, concern about the environmental impact of the organisation, and past environmental accidents are among the reasons for conducting an environmental audit. Internal and external auditors may provide valuable insight into an organization's operations by conducting audits. For example, if an environmental issue or event occurs, the business may have a reactive approach to environmental auditing, or if the organisation is proactive, it may have an anticipatory approach to environmental auditing. As environmental concerns have become more prevalent in society and organisations have come to recognise the importance of incorporating environmental considerations into all aspects of their operations, the motivations for conducting environmental audits and the goals that an organisation hopes to achieve through such an audit have evolved. A company's plan may include flaws that environmental auditing might uncover, minimising the likelihood of an unanticipated catastrophe. A well-executed environmental audit may have a significant impact on a business that is willing to take action on the findings.

3.1 Role of an environmental audit and management system

It's important to note that an environmental audit may reveal areas for improvement, but it doesn't give the resources to make these improvements. An environmental audit must be conducted within the context of an environmental management system in order to accomplish this. Audits of an organization's present environmental performance are carried out as part of an environmental audit. As a result, audits provide insight into what was going on at a certain point in time. However, environmental auditing alone cannot give management with the confidence that environmental practises and performance have met and will continue to fulfil statutory obligations and good company policy commitments and expectations, as noted, for example, by Hunt and Johnson (1955). Systematically addressing an organization's environmental impacts is made possible via the use of an environmental management system (EMS). As part of an environmental management system (EMS), a company can identify and document significant environmental impacts, set goals and targets for future environmental performance, put in place procedures and measures for achieving those goals and targets, and conduct audits to evaluate environmental performance and the effectiveness of those measures to achieve those goals and targets.

By placing an emphasis on pollution control, cost reduction, environmental regulation adherence, and improved company image, the EMS system may enhance environmental performance in various ways (Theyel, 2000). Emission Control Measures (ECM): In order to design, execute, achieve, evaluate, and maintain environmental policy, an EMS is a critical component of an overall management system that also includes organisational structure, planning, goals and objectives, activities and responsibilities, and procedures and processes (definition in ISO14001: 1996). "The environmental responsibilities of a company may be effectively managed via the implementation of an EMS." Compliance with legal and regulatory standards is provided by EMS, as well as reduced expenses from customer audits, a better image in the marketplace, and increased efficiency of resources.

Environmental management systems often depend significantly on documentation to ensure and understand that workers and any other stakeholders are aware of the management system in order to ensure and understand. Everything from the consequences on the environment to the environmental legislation, goals, and processes is generally well recorded. An essential distinction to be made is between environmental auditing and environmental management systems. There is a growing focus on how an organization's actions affect the environment, as shown by Seetharaman et.al (2007) in their presentation on environmental accounting as a tool for an environmental management system. Environmental issues such as global warming, habitat loss, and pollution are becoming increasingly prevalent in the business sector. Even though halting environmental deterioration is a shared obligation of the government, businesses, and consumers, organisations can make a big difference in the long-term sustainability of economic growth. As long as an organisation has financial resources, technological know-hows, institutional capabilities, and long-term vision to find environmental solutions, an organisation can contribute towards a sustainable environment by innovating to use raw materials more efficiently, reduce waste generated from their processes, improve waste disposal methods, and enhance the working conditions of their employees. In other words, pollution control programmes and activities, zero waste initiatives, and environmentally friendly product design such as life cycle analysis (LCA), total quality environmental management (TQEM), and so on. An increase in environmental performance, consumer happiness, and corporate profitability may be achieved in this manner.

There has been a growing interest in establishing a better knowledge of financial costs and benefits associated with environmental factors as input to traditional management accounting as environmental management in company has matured. Focusing on environmental aspects may improve the profitability and financial position of a corporation, according to increasing data. In order to determine the total environmental impact of an activity or product, environmental accounting is employed to do so. It is also possible to utilise environmental accounting to monitor an organization's environmental performance. Prior to the advent of environmental accounting systems, environmental impact reduction efforts and associated expenses were assessed and disclosed using environmental accounting systems. It's becoming more important for traditional management accounting to take environmental costs and benefits into account, especially as EMS in business has progressed. Conventional management procedures sometimes fail to account for the costs of air pollution to the environment, such as those incurred by the company itself. As a consequence, environmental constraints are often overlooked when it comes to saving money. Even though these so-called 'hidden costs' are difficult to identify, they are often long-term and substantial (Pernilla, 2001).It's important to note that an environmental audit may reveal areas for improvement, but it doesn't give the resources to make these improvements. An environmental audit must be conducted within the context of an environmental management system in order to accomplish this. Audits of an organization's present environmental performance are carried out as part of an environmental audit. "As a result, audits provide insight into what was going on at a certain point in time." However, environmental auditing alone cannot give management with the confidence that environmental practises and performance have met and will continue to fulfil statutory obligations and good company policy commitments and expectations, as noted, for example, by Hunt and Johnson (1955). Systematically addressing an organization's environmental impacts is made possible via the use of an environmental management system (EMS). As part of an environmental management system (EMS), a company can identify and document significant environmental impacts, set goals and targets for future environmental performance, put in place procedures and measures for achieving those goals and targets, and conduct audits to evaluate environmental performance and the effectiveness of those measures to achieve those goals and targets.

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3.2 Cost and Benefit of Environmental Audit

There are several advantages to doing an environmental audit for a business. Enhanced managerial effectiveness and cost savings are two of the most readily apparent advantages. Organizational management requires a thorough understanding of all operational procedures and processes in order to be successful. As a result of a thorough audit of the environmental conditions, management may be certain that nothing has been ignored and that nothing unexpected is going to occur.

It is common for environmental audits to uncover potential for cost-savings in an organization's management. Water and trash audits, for example, are frequent examples of this kind of audit. Waste reduction is one such area where a business may save money in a big way. Disposing of waste costs money, and disposing of waste is expensive in and of itself. For example, businesses may be required to pay for the disposal of garbage in approved landfills or for the specialised treatment of chemicals before to disposal. Reduced waste production means that the company will have to dispose of a lower amount, which will save money. Minimizing inputs is an apparent method to reduce waste production. The total cost of raw materials may be lowered if a more efficient method is used, since less raw materials are needed. Organizations are nearly always paid for the quantity of water they use, therefore reducing the amount of water used may save money.

An environmental audit may help managers become more aware of environmental concerns they may have previously been unaware of. When there are several locations or a huge industrial operation, the top managers and directors are generally situated far away, such as in the company's main office. Even though a manager has visited many of the places where environmental dangers are visible, they may lack the expertise and training to recognise what risks are there. Environmental audits may provide managers peace of mind by identifying any current or prospective threats. However, environmental performance is not improved by auditing alone. It is impossible to verify that management effectiveness and system and process appropriateness will be maintained by an environmental audit, which only gives a ‘snap-shot’ of current events. When it comes to making decisions and keeping a close eye on the environment, an environmental audit may be a very useful tool.

Audits often reveal the necessity for a continuing improvement programme. Performing a waste audit may pave the way for the execution of a waste reduction programme that may include large product redesigns or even modest tweaks to existing working methods. There are additional financial advantages for businesses who do an environmental audit to ensure they are in compliance with the law. The results of an audit may help a company avoid financial loss due to plant closures, clean-ups, or limitations imposed by government agencies or negative publicity by identifying any areas where rules have been violated. Large corporations are not the only ones who may benefit from cost-cutting measures. For the most part, the financial advantages of environmental audits can be quantified. Environmental policies and responsibilities are better understood by the entire workforce and management has a greater sense of security that their plant's compliance (and safety) status has been confirmed and documented, favourable publicity, improved relations with regulatory authorities, and a better understanding of consumer demands are some of the less tangible benefits. enhance the design of goods, packaging, and procedures to reduce environmental effects and guarantee compliance and due diligence standards are met. Environmental audits may have a number of perceived drawbacks, such as the interruption of plant operations during the audit, the expense of the exercise, and the possibility that employees inside the business believe that an audit is a negative procedure that evaluates their performance. Most of these issues may be avoided or eliminated with enough forethought in order to guarantee a smooth audit. Employees may be apprehensive about an audit, but if they are made aware of the beneficial features of the process, they will be more open to accepting it. Many auditing firms base their fees on the savings realised as a result of the audit or may operate on a no-gain, small-fee basis, which allows them to recoup the audit's costs.

IV. SUSTAINABILITY REPORTING PRACTICES IN INDIAN COMPANIES

Companies in India have a choice about how they report on sustainability and only do a sustainability risk analysis if they are ready to. "Most businesses choose not to make sustainability disclosures since doing so is entirely optional." However, despite having a substantial manufacturing base in India, firms do not seem to produce distinct sustainability reports for the pharmaceutical industry. Some industries such as Metals and Mining, Oil and Gas and Construction-related activities have chosen a separate reporting strategy because they are obliged to complete an Environmental Impact Assessment and find it simpler to make the necessary disclosures. Despite the fact that power firms are among the largest users of non-renewable resources, most of them fail to disclose their sustainability practises. Only a small percentage of financial services firms publish sustainability reports. Sustainability reporting, on the other hand, has grown in popularity as more and more organisations are realising the advantages of doing so.

4.1 Regulatory Framework for Sustainability Reporting in India

There are currently no laws in India that require companies to report on their environmental performance. Environmental reporting is now a requirement for many businesses, thanks to regulations inserted into different laws. According to Section 217 of the Companies Act 1956, information on energy saving must be included in the Board of Directors' Report. It has been established by the ICAI that the ICAI-Accounting Research Foundation (ICAI-ARF) has started a specific effort to provide Indian corporations with a framework for reporting on their environmental and social performance. A company's social, environmental and economic efforts are required to be reported on by the company. The framework for standardised disclosures linked to sustainability reporting is being developed by a group. Sustainability reporting is now a requirement for Indian firms that want to be listed on the stock exchanges in other countries. With the exception of these specific clauses, the Environment (Protection) Act of 1986 and The Factories Act of 1948 have made the submission of reports on environmental protection, labour conditions, and worker well-being either necessary or preferable. In order for businesses to continue their value-creating activities, a number of voluntary standards have been developed.

V. CONCLUSION

Understanding how the natural environment affects an economy is critical to environmental accounting. It gives information on both the benefits that natural resources provide to the economy and the expenses that come with pollution of the environment and destruction of natural resources. As a country, India is only beginning to develop environmental accounting and reporting standards. Iron mental protection standards and regulations are followed by Indian corporations, but there are currently no clear-cut procedures in place at the national, state or even business level to ensure environmental compliance. Businesses and households must have a clear environmental strategy, implement pollution control measures, adhere to relevant laws and regulations, and provide enough information on environmental issues in their annual reports. A clear environmental policy, together with effective execution and an adequate accounting method, are essential for long-term growth. The practise of documenting sustainability in India is still in its infancy. Only a few of the world's largest corporations are now implementing the GRI reporting framework to its fullest potential. Additionally, the data's reliability and correctness is a big concern. India's businesses should implement GRI-based sustainability reporting techniques on a bigger scale in order to compete in the global marketplace, where sustainability reporting is already a mainstream practise.

5.1 Recommendations

- Necessary steps should be taken to collect reliable and accurate data for the preparation of the report.
- Building awareness that the process of reporting is important in achieving the long-term strategic goals of the companies.
- Educating the staff concerned with the preparation of the report so that they have a clear idea about its objectives.

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