



# ESG - CS Professional

## Part- C (15 Marks)

### PART III: ENVIRONMENT & SUSTAINABILITY REPORTING

19. Sustainability Audit; ESG Rating; Emerging Mandates from Government and Regulators
20. Integrated Reporting Framework; Global Reporting Initiative Framework; Business Responsibility & Sustainability Reporting



**By: Akshit Sehgal**

**(CS Professional Aspirant)**

CH-19

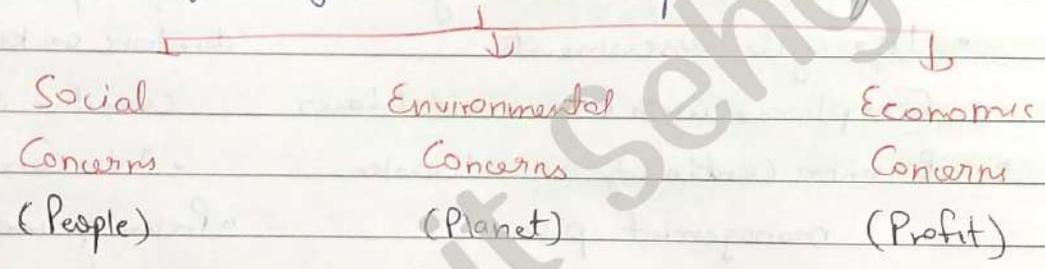
## Sustainability Audit

### \* What is Sustainable Development?

- 1) new concept
- 2) UN's Brundtland report defined it as:-

Development that meets the needs of present without compromising the future needs of upcoming generation.

### \* Sustainability recognizes the interdependence of -



### \* Corporate Sustainability?

Conducting business to create value for present shareholders.

↓  
while protecting the rights of future stakeholders & shareholders

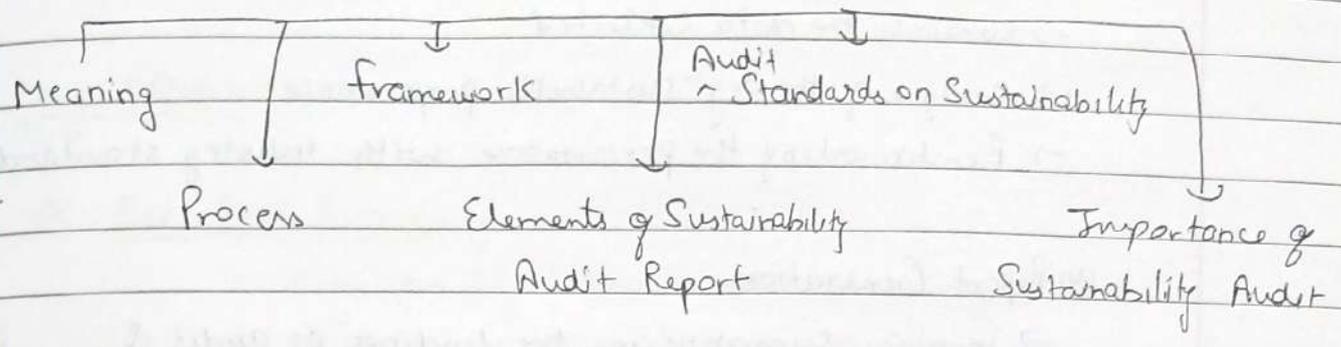
### \* Sustainability Reporting?

1) SR, is a response of organisations towards growing concerns about environment degradation, social and ethical issues.

2) Started in → 1980

3) This led to CSR reporting by companies which are environmentally sensitive.

## Sustainability Audit



### A Meaning

- 1) Sustainability Reporting paved a way for sustainability Audit.
- 2) Worldwide Businesses and professional's has developed sustainability framework
- 3) Consisting of ESGEE for → PPP
  - ↳ economic
  - ↳ social
  - ↳ governance
  - ↳ ethical
  - ↳ environmental
  - ↳ People
  - ↳ Planets
  - ↳ Profits
- 4) Sustainability Audit is an comprehensive assessment of an organisation's ESGEE impacts.
- 5) Purpose is to reduce -ve impact on SEE & improve sustains performance.
  - ↳ social, environmental, economic
  - ↳ Also known as 'Triple Bottom Line' Assessment.

### B Framework

- 1) Planning & Preparation
  - Define scope and objective of audit
  - Prepare plan for audit.
- 2) Data Collection & Analysis
  - Gather info. on SEE
  - review policies on sustainability

### (3) Assessment & Evaluation

- evaluate the data collected
- analysis of the org<sup>n</sup> sustainable performance
- Benchmarking the performance with industry standards.

### (4) Report Generation

- involves summarizing the findings of audit & recommendations for improvement

### (5) Implementation & Monitoring

- Taking actions on recommendation made in report and monitor the progress.

## C Process

1. Defining Scope & Objective of Audit.
2. Gathering Data
3. Conducting Assessment & Evaluations
4. Preparing a Report
5. Implementing & Monitoring Action
6. Reporting or Communicating.

## D Sustainability Audit Report

- A sustainability audit report evaluates an organization's performance in detail
- It analyses ESG impacts to identify areas of improvement
- It's a vital tool for enhancing organizational sustainability efforts
- It is prepared usually by a third party independent auditor.
- The report must be published to promote transparency and accountability.

→ It is often shared on website of Company.

## Key elements

### ★ Executive Summary

- provides high level overview of report
- (+) purpose of audit, key findings, recommendations

### ★ Background

- Provides context of Audit.
- imp. of organisation's sustainability goals
- Scope of Audit is defined here.

### ★ Methodology

- Methods used to Conduct Audit
- (+) data sources, Stakeholders Consulted & Tools & Techniques to gather data.

### ★ Key Findings

- Presents the main findings of audit
- (+) detailed analysis of sustainability performance on ESG issues like Energy Use, Greenhouse Emission etc.

### ★ Recommendations

- provides how organisation can improve its sustainability performance in areas identified under audit.

### ★ Implementation Plan

- outlines plan for implementing recommendations from audit

### ★ Conclusion

- Summary of main findings & recommendations from Audit

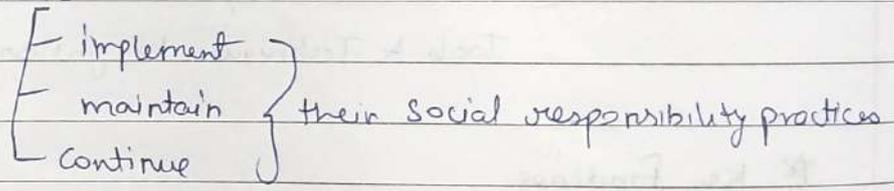
## E Audit Standards on Sustainability

### 1. Global Reporting Initiative (GRI)

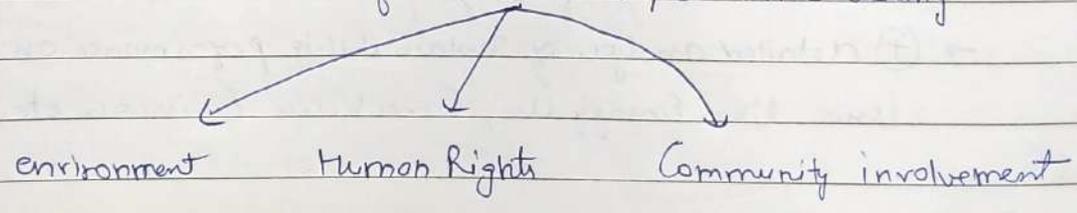
- widely recognized
- provides guidelines and indicators for organisation
  - ↓ to
  - measure and report their sustainability performance.
- used by organisations around the world to report on sustainability performance.

### 2. ISO 26000

- International Standard for CSR.
- Provides guidelines to organisation on how to

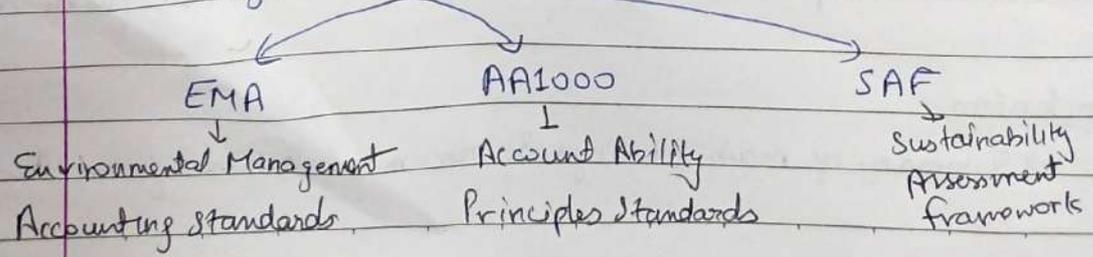


→ framework for sustainability audits covering



### 3. Sustainability Assessment Standards

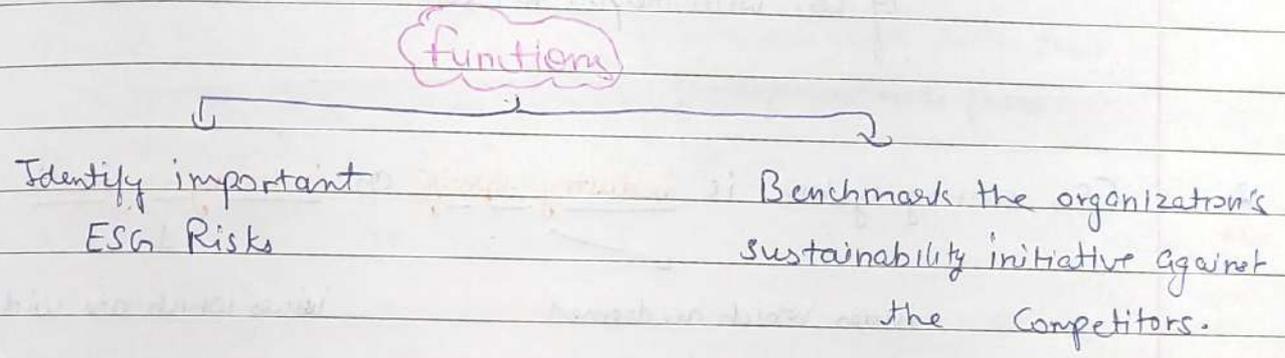
- There are various SAS.
- Provides systematic & Comprehensive approach to sustainability assessment.
- Key standards include:



#### 4. National and Regional Standards

- There are various NRS
- used to conduct sustainability audits
- for example → Eco-Management and Audit Scheme (EMAS) developed by EU.

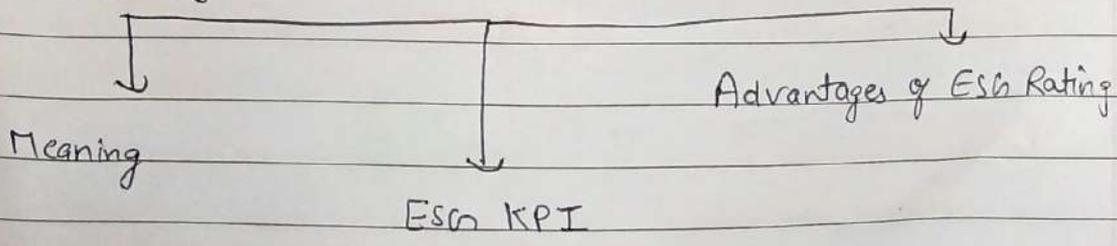
#### F. Functions and Importance of Sustainability Audit



**Importance**

1. Identify areas for improvement
2. Measures sustainability performance
3. Demonstrate Commitment to Sustainability
4. Enhance Reputation & Brand Image
5. Fostering Innovation & Competitiveness
6. A Valuable tool for Organization to understand sustainability performance, to identify areas for improvement and to take actions to enhance their sustainability

#### \* **ESG Rating**



A Meaning

1. ESG score is an  
objective or Evaluation  
measurement  
of Co. with respect to ESG

2. ESG scoring system is industry-specific or industry-agnostic.  
↓  
issues which are deemed material to industry at large.      issues which are widely accepted across industry like • climate change  
• human rights

3) It measures Co's long-term risks.

4. A good ESG rating means Company is managing its ESG Risks well relative to its peers

5. ESG rating helps investors understand a Company's priorities and long-term risks it could face in future.

## B. ESG Key Performance Indicators

1. ESG KPIs are trackable figures meant to help firms → to understand ESG impact of their operations

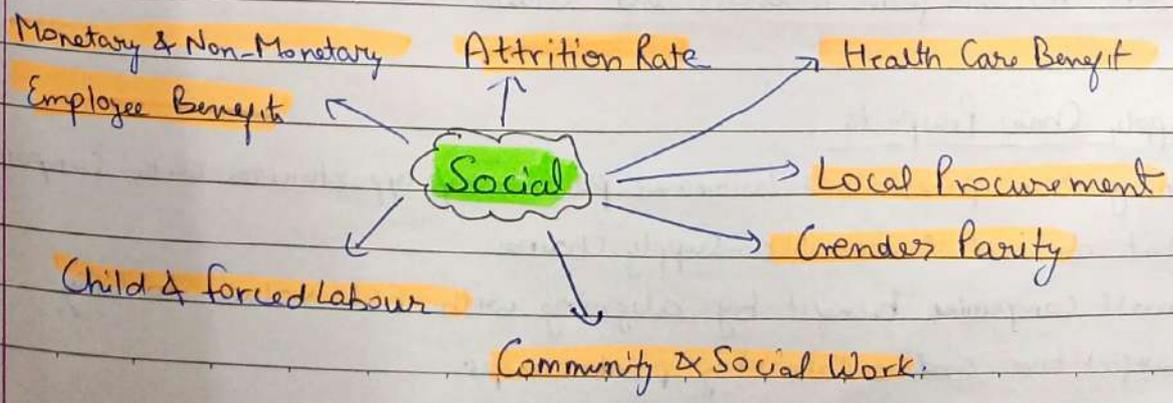
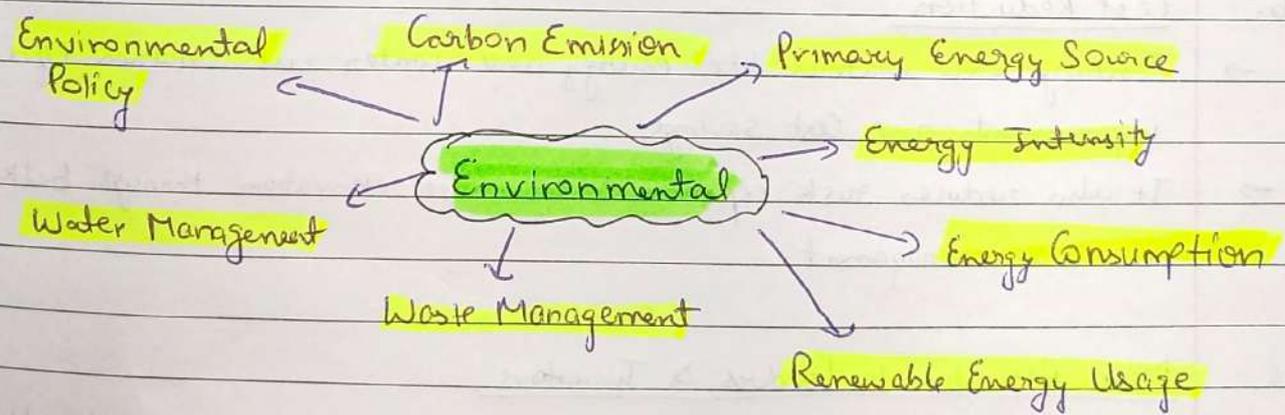
2. ESG KPIs helps :-

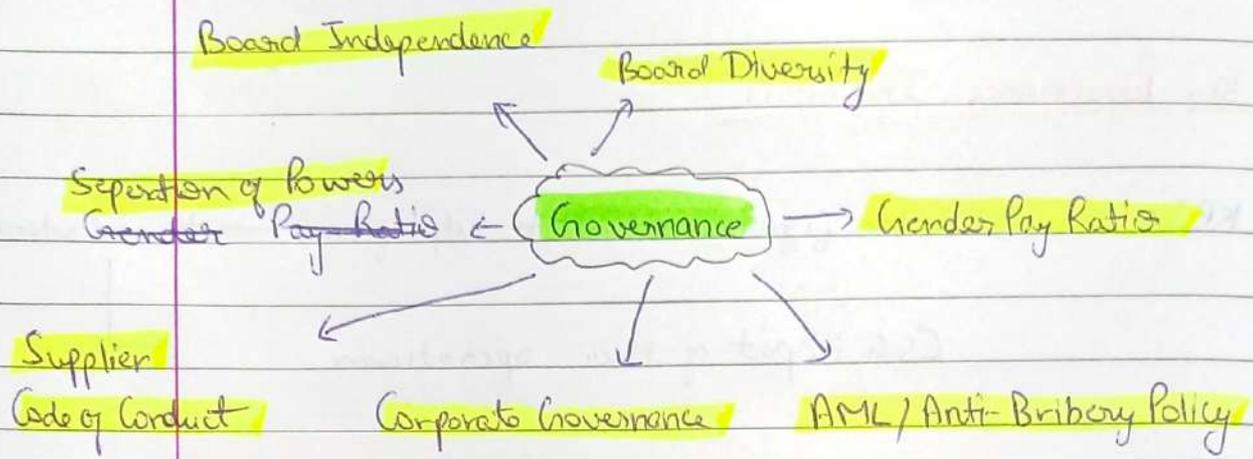
- Venture Capital
  - Private Equity Managers
  - Investors
- } to know what risk their funds/investments faces.

3. SEBI LODR - Regulation 34 :

- Top 1000 listed entities
- Business Responsibility & Sustainability Report (BRSR) on ESG included in Annual Report

### KPI's used under ESG Rating





C Advantages of ESG Rating (small to mid sized firm)

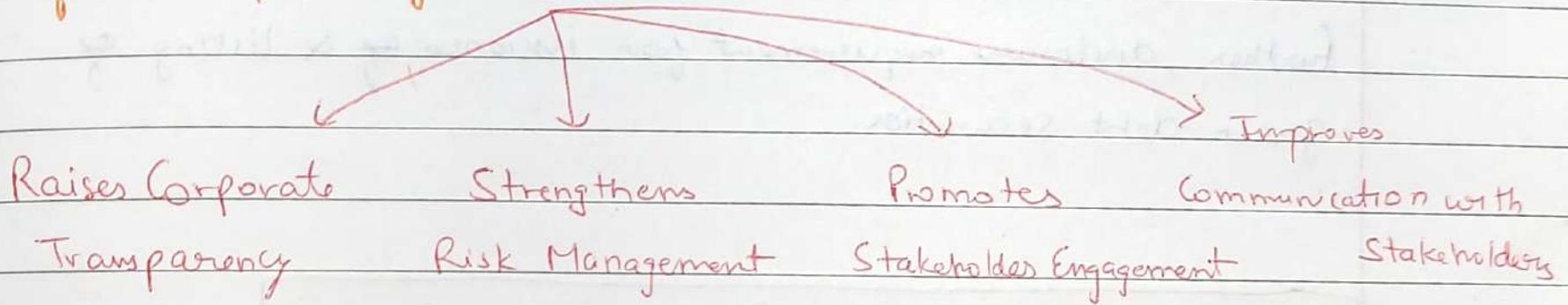
- a. Competitive Advantage
  - An ESG program boosts brand reputation and loyalty by aligning with consumer values around sustainability and ethical practices.
  - This helps small to mid-sized companies attract clients who prioritize responsible business practices.
- b. Cost Reduction
  - Tracking ESG metrics like energy and water use enables efficiency improvements and cost savings.
  - It also reduces risk exposure & encourage innovation through better resource management.
- c. More Attractive to Lenders & Investors

Companies with ESG programs tend to outperform competitors & attract more interest from investors and lenders.
- d. Supply Chain Prospects
  - Strong ESG performance increases partnership opportunities with companies that demand sustainable supply chains.
  - Small companies benefit by aligning with ESG values to stay competitive and obtain key partnerships.

5. Attraction & Retention of Talent

- Modern job seekers prefer employees who reflect their values & demonstrates real ESG commitment.
- Strong ESG programs improve employee satisfaction, retention & help attract top talent.

Note As per BSE Guidance Notes on ESG Reporting - importance of ESG Reporting are :-



D. ESG Rating Agencies

## 1. Dun & Bradstreet

### About Company →

International Business Data & Analytics provider  
Insight Company's performance, trends & ESG factors

### ESG Analysis

Provide comprehensive view on sub sustainability performance.

### Offers

- a) Company level ESG score & ratings
- b) Sector wise analysis
- c) ESG focused research report
- d) Proprietary tools to help companies track and analyze own ESG performance

## 2) Sustainalytics ESG Risk Ratings

Holding Co. → Morningstar [One of the largest stock market data providers]

Measurement E, S, G at global scale

Use → Inform about security selection

Type of Data → Quantitative ESG data and Qualitative analysis

No of Ratings ESG rating on 20,000 Companies and 172 countries

## 3) MSCI ESG Rating

Created by → MSCI ESG Research [one of the largest rating agency]

Rating Released → 14000 equities and fixed income earners

Rating → AAA to CCC

Rating score → 0 to 10

Three Pillars → E, S, G

Answers to four key questions → a) Most significant ESG Risk and opportunities

b) Exposure of Co. to ESG risks & opportunities

c) how Company is managing risk and opportunity

d) Compare with global industry peers

## \* ESG Reporting in India

In India, currently ESG Reporting is mandatory by the following rules & regulations :-

- Companies Act u/s 134 (m) mandate every Co. to file along with Annual financial statements the details of measures taken by Co. towards conservation of energy. further mandates statutory duties of director to work into best interest of Co, employees, shareholders, Community & environment.

- SEBI LODR mandates Top 1000 Listed Co. to report about their sustainability activities in BRSR report. A new reporting framework is also introduced which compels certain entities to provide reasonable assurance which shall further be increased from 150 to 1000 (BRSR Code).  
mandates all listed entities to report all threats, opportunities, risk in its annual report.

further, disclosure requirement for issuance & listing of green debt securities.

\* Other Recommendation for Promoting ESG Culture

1. Appoint a Chief Sustainability Executive (CSO)

While its easy talking about sustainability, the actual transition may be difficult. Appointing a CSO is better practice which cut through all the complexities which org. may face in the transition.

CSO would help making efforts to push towards change & once employees are well informed and guided towards goal transition becomes easy.

CSO may take certain creative steps to motivate the team which amongs many includes bonuses to motivate.

2. Creating an ESG Policy Budget

New ESG regulations will require hiring staff and partnering with sustainability-focused vendors. Budget allocation is essential and it requires CFO approval. So an organisation while making policy should also put sufficient budget.

### 3. Access Partner's Sustainability Practices

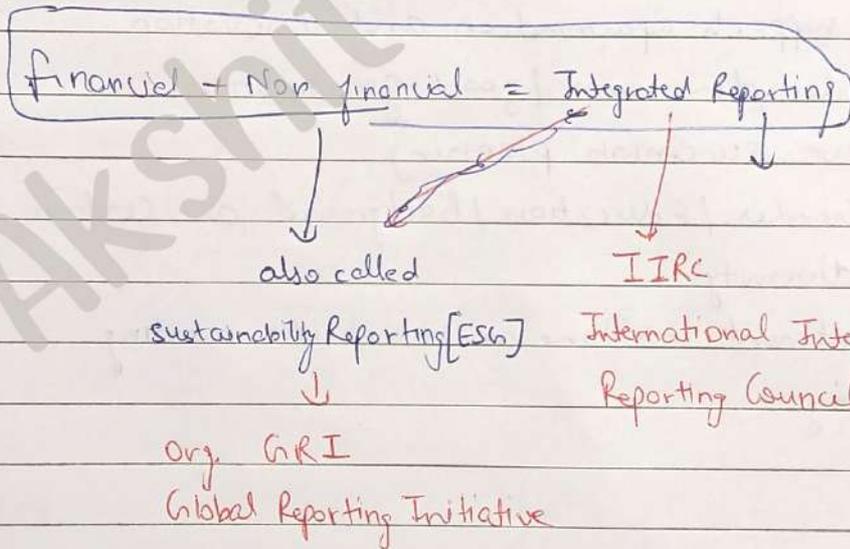
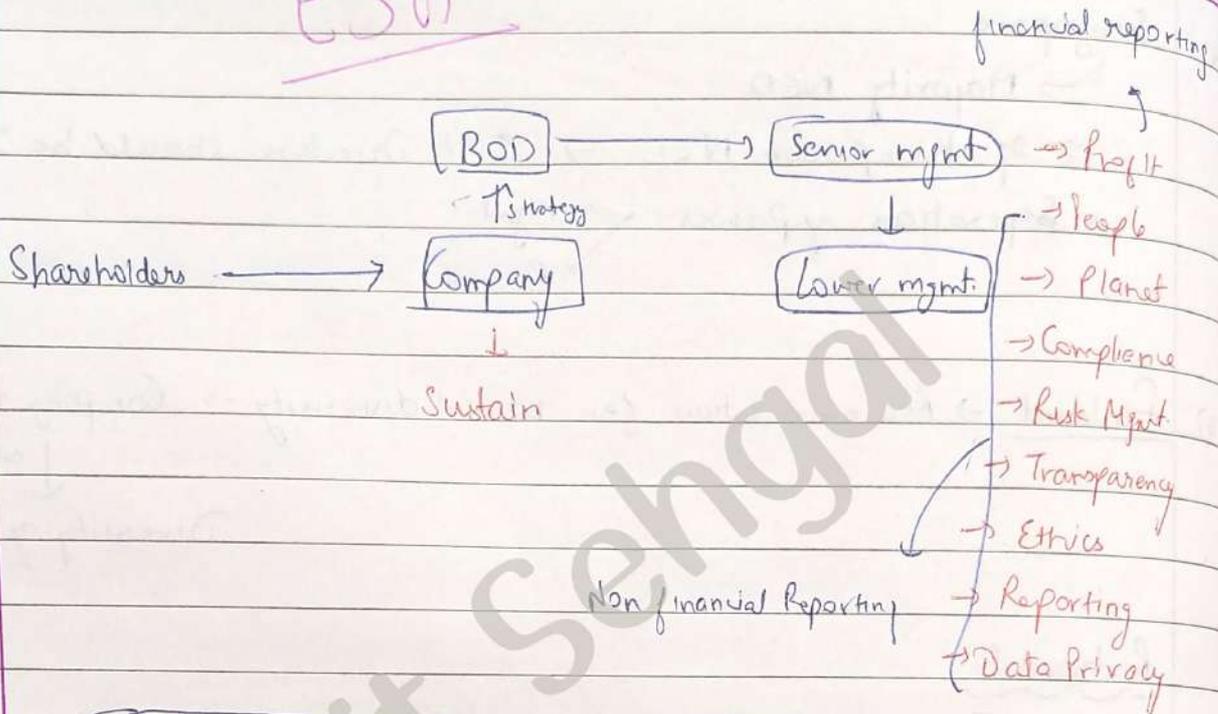
It is not just the duty of entity to work toward sustainability but rather every officer entity in its supply chain. This includes all partners — from hardware and utilities to service providers.

A partner's poor sustainability record can impact your company's carbon footprint. Hence Co should take proactive steps to assess their partner's sustainability practices & to replace them if they are not moving towards sustainability.

————— CHAPTER ENDS 😊 —————

**By: Akshit Sehgal**

ESG

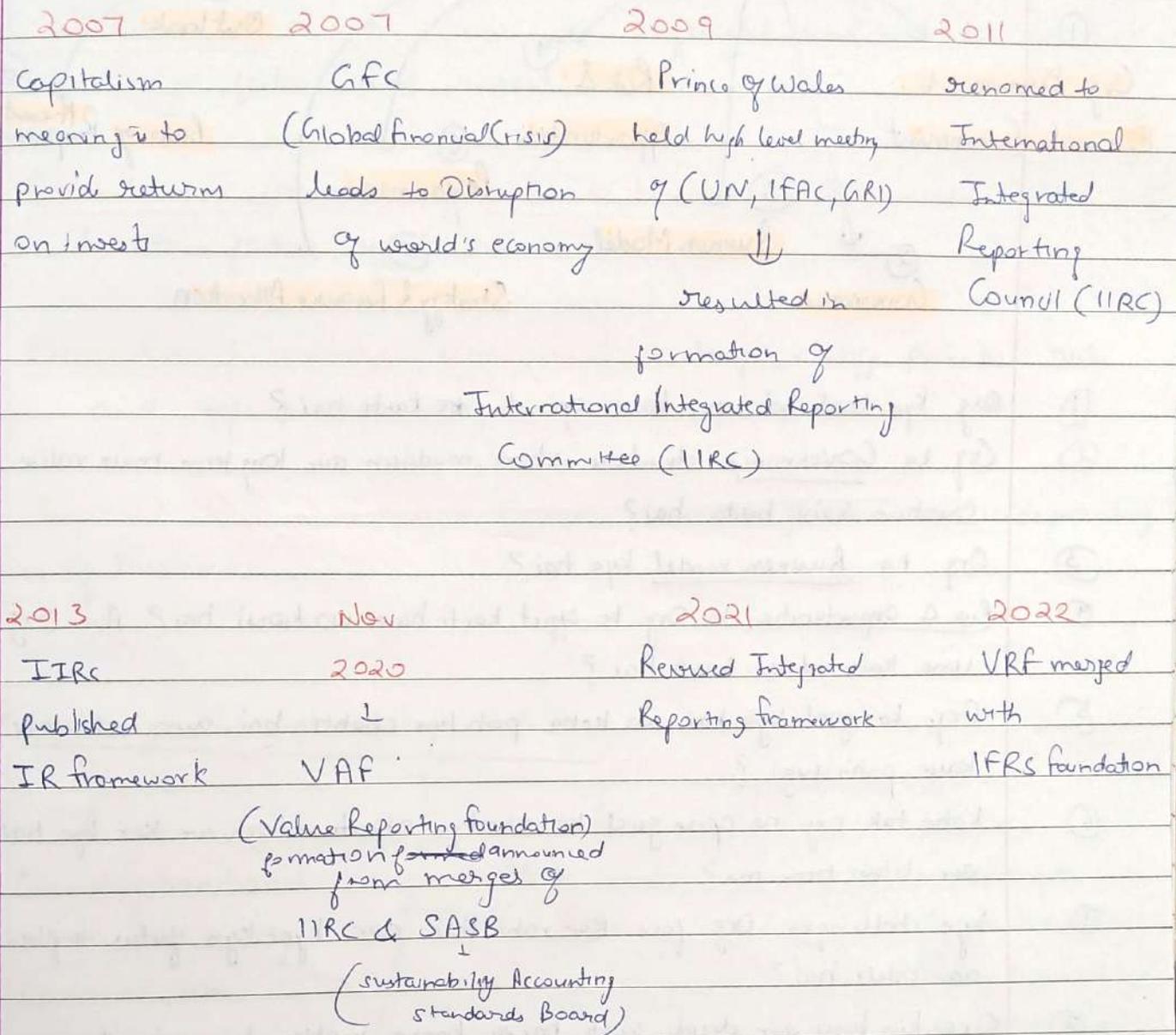


Profit + ESG = Value Addition  
 (increase in share price)

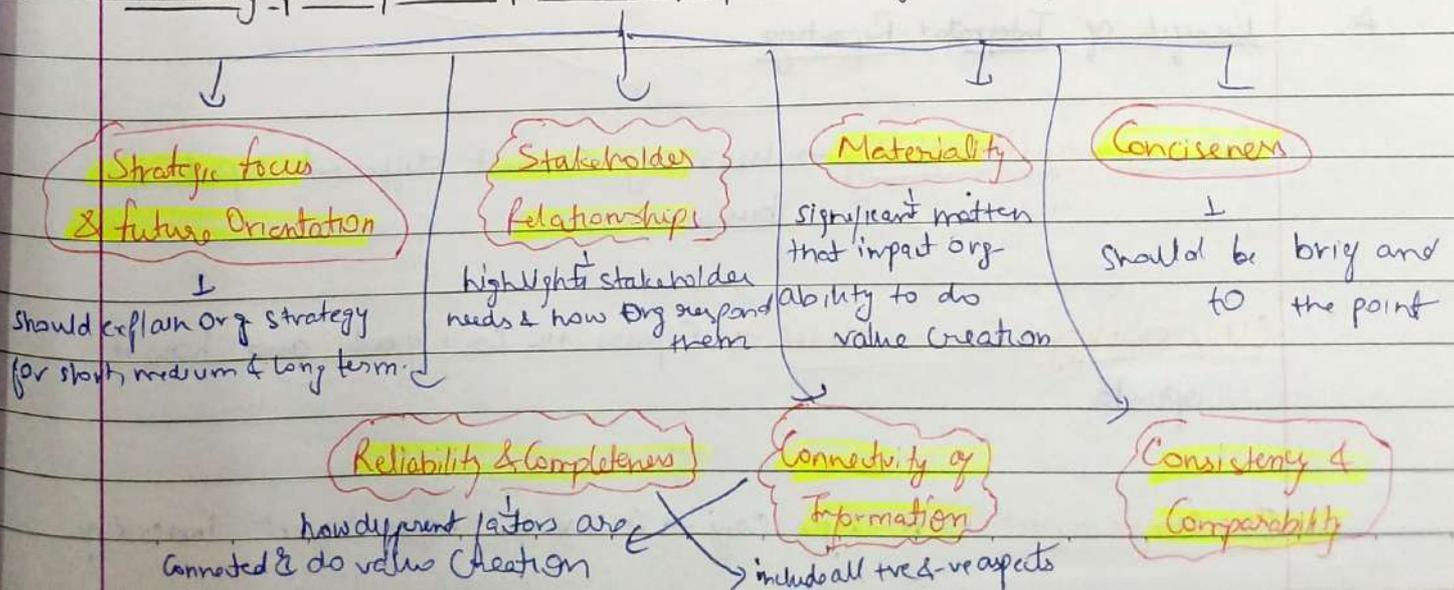
as  
 wealth maximisation

Integrated Reporting → Integrated Reporting framework defines integrated reporting as "A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time & related communications regarding aspects of value creation!"  
 This framework was developed by :- "International Integrated Reporting Council".

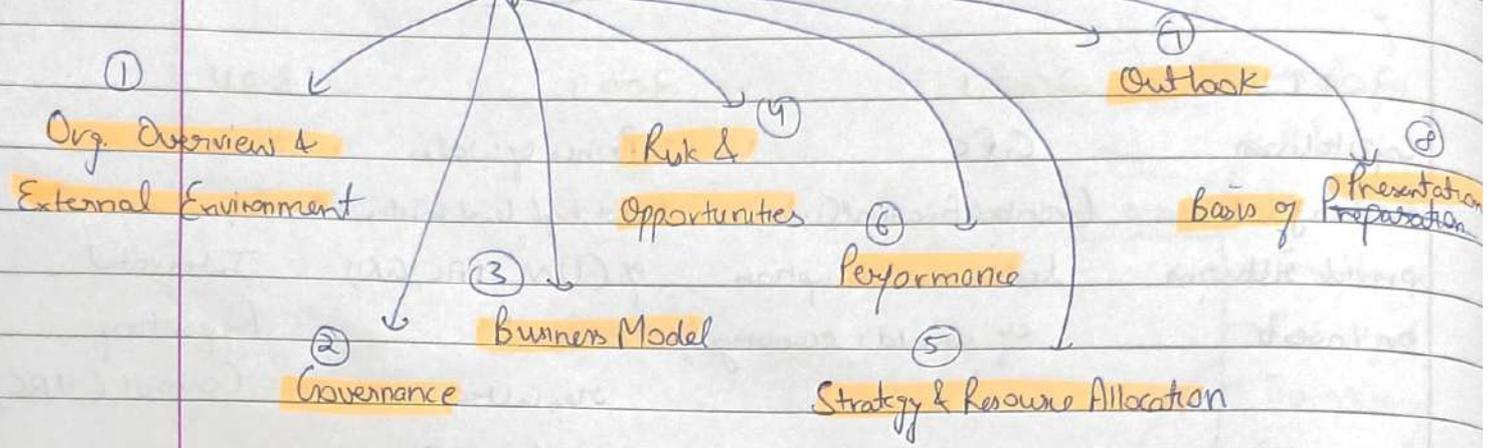
## Evolution of integrated Reporting framework → Pg. 20.1 Book



## Guiding principles to present & prepare Integrated Report



## Content Elements of IR



- ① Org. kya kasti hai aur kaise operate ~~ke~~ kasti hai?
- ② Org. ka Governance structure short, medium aur long term mein value creation kaise karta hai?
- ③ Org. ka Business model kya hai?
- ④ Risk & Opportunities Jo Org. ko affect karti hain wo kaisi hai? Aur Org. use kaise deal karti hai?
- ⑤ Org. ka goal kya hai, wo kaha pohunchna chahati hai aur wo waha kaise pohnechi?
- ⑥ Kaha tak org ne apne goal ke strategic objective achieve kar liye hai aur kitne time me?
- ⑦ Kya challenges Org. face kar rahi hai aur kya-kya future implications aa sakti hai?
- ⑧ Org. kin basu par decide karti hai i.e. konse matters ko integrated report mein include karne hai aur kaise wo matters evaluate ho?

## \* Benefits of Integrated Reporting

Encourage integrated thinking → Helps Org. connect different aspects of business

Clear strategy & Business Model → Explain the Co.'s goals and how it operates

One simple report → A single copy to access & consume report instead of

multiple document

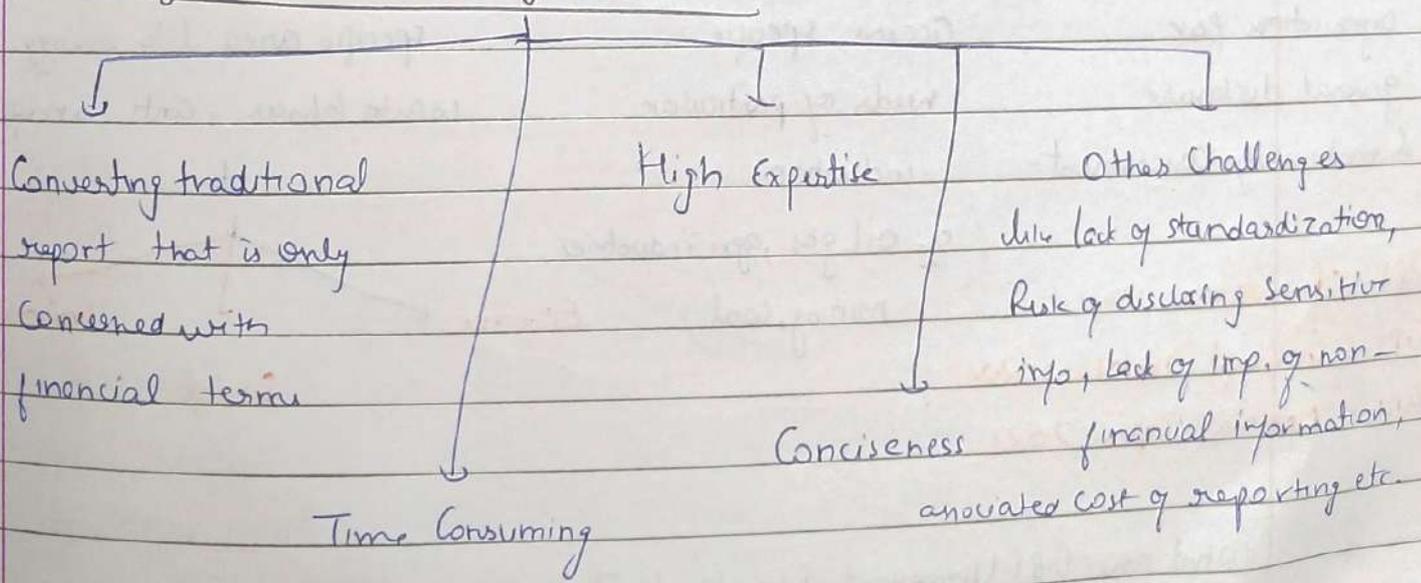
Value creation of shareholders → Highlights and measures non financial factors that impact value

Connects non financial performance to business → Shows how Sustainability & other factors affect success

Better Risk & Opportunity Management → Helps identify potential risks and opportunities early

Improved decision making → Enhance internal process and understanding of business

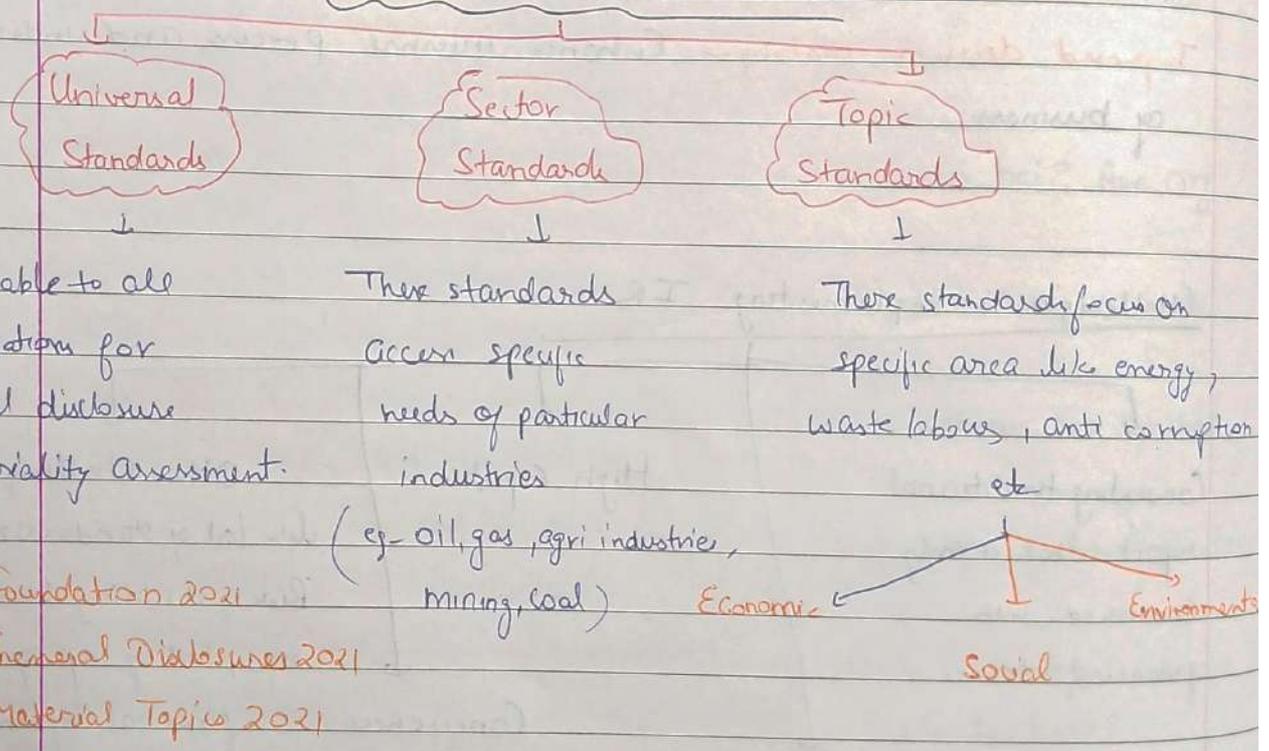
Challenges in implementing IR



## Global Reporting Initiative

↓  
 They are widely used framework for Sustainability reporting. They provide organization with a structured approach to disclose their ESG impacts.  
 These standards enable companies to be transparent about their contribution to sustainable development.

### GRI Standards divided into

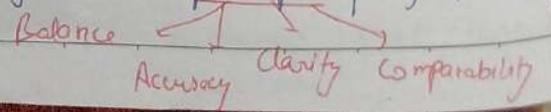


Q

What are GRI Universal Standards?

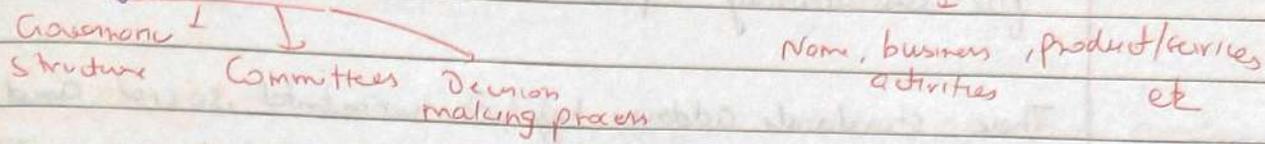
A- GRI universal standards are <sup>foundation</sup> framework of GRI framework. They provide a basic line for all organizations to report their sustainability performance and impacts regardless of size, sector or region.

GRI-Foundation 2021 → It serves as the starting point for any org. using GRI standards. It explains how to use the standards effectively and outlines (highlight) the principles of high quality reporting.



## GRI-2 General Disclosures 2021

It provides the foundation for understanding the organisation profile, structure & governance.



## GRI-3 Material Topic 2021

It guides an organization in identifying & prioritizing & reporting on material topics.

### Key elements

- Impact Identification → Evaluate how an organization activities affect the environment economy & people.
- Materiality assessment → Determining which topics are critical based on significance to stakeholders and organizational impact.
- Disclosure Requirement

Q- What are GRI sector standards?

A- These sectors are designed to address the specific sustainability challenges and impacts of particular industries.

These standards provide detailed sector specific guidelines for organization operating in those sectors  
 eg. coal, mining, Textile, oil, gas fishing etc.

Q

### GRI Topic Standards

These standards provide specific disclosure and reporting requirements for sustainability topics relevant to an organization.

These standards address key, environmental, social and economic issues which enable org. to report on their impacts

## **REPORTING PROCESS UNDER GRI FRAMEWORK**

- 1) Identifying and assessing impacts
- 2) Reporting disclosures
- 3) Reporting in accordance with the GRI Standards
- 4) Navigating a report

# Regulation 34(2)(g) of LODR

# BRR was divided into 5 sections :-

Section A General info about the company

Section B financial details of the company

Section C Other Details

Section D BR information

Section E Principle wise performance disclosures

Currently BRSR divided into 3 sections :-

Section A General Disclosures

Section B Mgmt & Process disclosures

Section C Principle wise performance disclosures → essential and leadership.

## Sections in Reporting framework

### Section A : General Disclosures

Covers details about:- Listed Entity, Product services, operations, employees, CSR, Transparency & disclosure etc.

Basic Details about:- Company Name, CIN, Contact Details, paid up capital, gender ratio of employees, turnover ratio of employees etc.

### Section B : Management & Process Disclosure

focus on:-

- Policy / management processes  
sustainability governance, leadership & oversight.
- Preparing and identifying policies for NCRBC principles
- Monitoring sustainability actions & governance structure.

### Section-C Principle wise Performance Disclosures

• Companies need to report on key Performance Indicators (KPI) as per NCRBC principles.

#### a) Essential Indicators (mandatory)

→ Training programme, energy consumption, waste, emissions, water use etc.

#### b) Leadership Indicators (voluntary)

→ Sustainable Practices and Responsible Business Action including mgmt. principles policies, supply chain, bio diversity details etc.

## ★ Nine Principles of NCRBC

Businesses should :

1. Conduct & Grow themselves with integrity and in a manner that is ethical
2. Provide goods & services in a manner that is sustainable & safe
3. Respect and promote well being of all employees (including those in their value chains)
4. Respect the interests and be responsive to all stakeholders
5. Respect and promote human rights
6. Respect & make efforts to protect and restore environment
7. Promote inclusive growth and equitable development
8. Engage with and provide value to their consumers in a responsible manner.
9. When engaging in influencing public & regulatory policy should do in a responsible & transparent manner.

## UNDERSTANDING THE GRI FRAMEWORK

The GRI offers 30 environmental performance indicators that should be used as part of the environmental sustainability report.

These performance indicators are divided into following categories

### 1. **Materials:**

Includes raw materials (natural resources, manufactured chemicals, and materials needed for manufacturing) as well as packaging materials and recycled product content.

### 2. **Energy:**

Includes direct and indirect energy consumption, renewable energy amounts used, such as wind, solar, and geothermal, and efforts made to reduce energy requirements through more energy efficient processes.

### 3. **Water:**

Covers the total amount of water withdrawn from water sources and company impact on those water sources, as well as the percentage and total volume of water that is recycled or reused.

### 4. **Biodiversity**

Provides information regarding company impact on the biodiversity of adjacent/nearby protected areas and/or areas considered to have high biodiversity, as well as company strategies for managing impacts on biodiversity.

### 5. **Emissions, Effluents, Waste:**

Includes total weight of direct and indirect emission of GHGs, ozone depleting emissions, and NO<sub>x</sub>, SO<sub>x</sub>, and other air emissions by type; total water discharge by quality and destination; total weight of waste generated by type and disposal method; total weight of treated, transported, or imported hazardous waste either as well as the percentage of waste shipped internationally; total volume and number of spills on and off-site.

### 6. **Products and Services:**

Provides the percentage of products sold and packaging materials that are reclaimed/recycled.

**7. Compliance:**

Provides the total monetary value of noncompliance fines and number of noncompliance sanctions.

**8. Transport:**

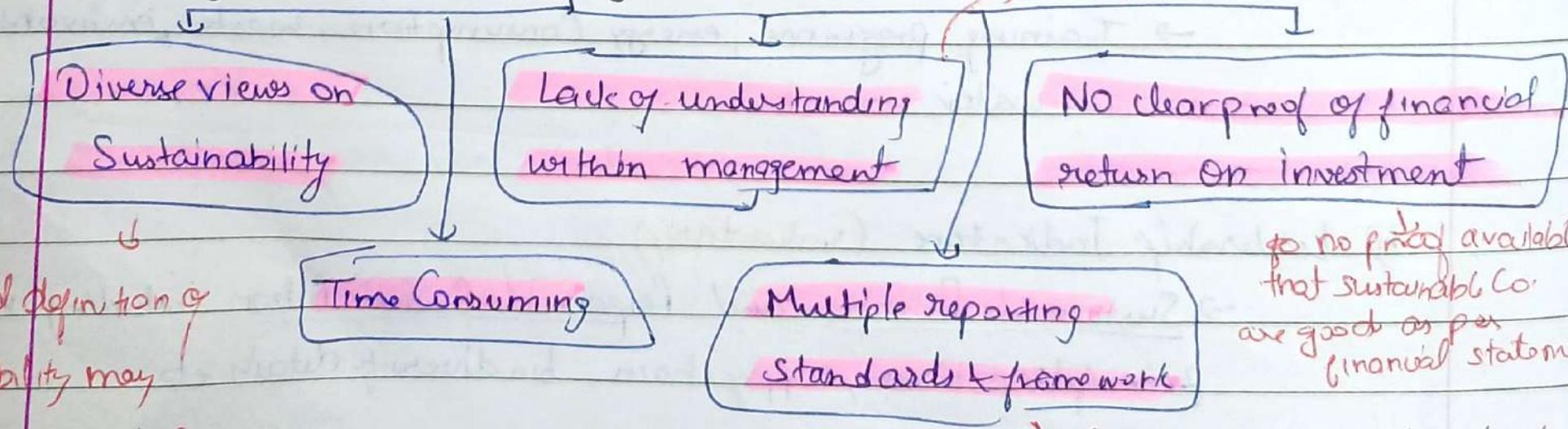
Describes the impact of transporting your materials and finished products.

**9. Overall:**

Provides the total values of environmental protection expenses and investments.

★

## Challenges of BRSR Reporting

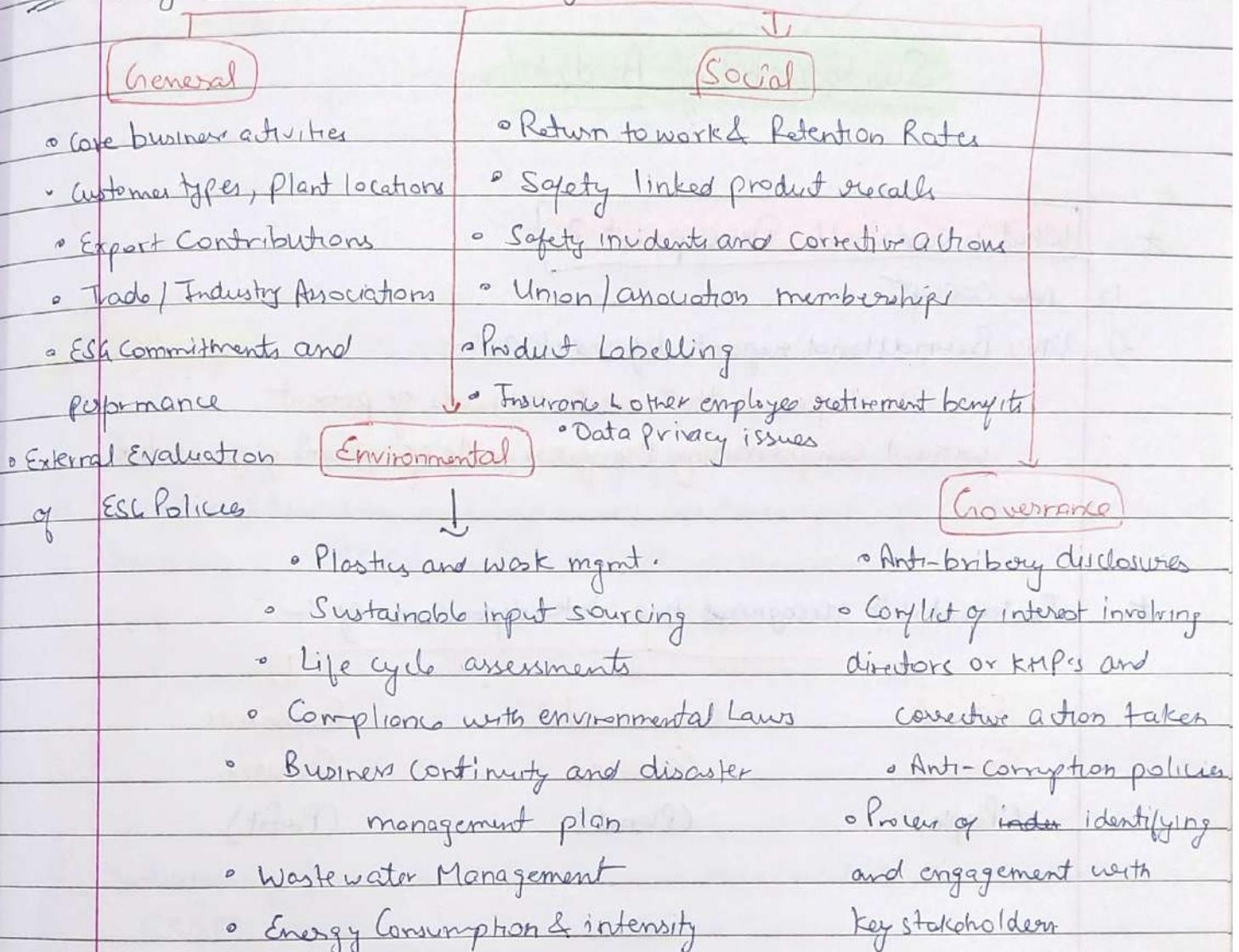


no fixed definition of sustainability may differ for person to person

no proof available that sustainable Co. are good as per financial statement

↳ Copying as many standards are followed globally like GRI, SASB, CDP etc.

## A Key Disclosure required by BRSR



## \* Benefits of BRSR Reporting

