

QUESTION BOOK

ESG

CHAPTER 19:

SUSTAINABILITY AUDIT; ESG RATING; EMERGING MANDATES FROM GOVERNMENT AND REGULATORS

QUESTION 1(A):

Raksha Hydro Ltd, a power generation company appointed Kunal, Company Secretary, as its Compliance Officer. Company's management requested Kunal to revisit various legal and regulatory compliances, both mandatory and recommendatory for the Company and prepare a detailed report with issues/concerns and recommendations. Kunal performed an elaborate review of the documents/filings and also spoke to his friends and colleagues in the industry. He furnished a detailed report to the management stating the Company was largely compliant with applicable laws and regulations. However, he suggested that the management should consider getting a Sustainability Audit done for the Company. He went on to explain that sustainable development is a relatively new concept and gained momentum in the late 1980s. In 2010, UN described business sustainability as 'Conducting operation in a manner that meets existing needs, without compromising the ability of future generations to meet their needs and has regard to the impacts that the business operations have on the life of the community in which it operates and includes environmental, social and governance issues.' Reporting on sustainability paved the way for emergence of sustainability audit. The concept of sustainability audit has evolved over the years as society's understanding of sustainability has expanded and as organizations have become increasingly aware of their impact on the environment and society besides their bottom-line. The wave of financial mishaps in the early 2000s, the 2007-2009 global

financial crisis, and subsequent regulatory responses have stimulated considerable interest in business sustainability, corporate governance, ethical, and corporate accountability. Businesses and professional organizations worldwide have also responded by developing a business sustainability framework consisting of five overriding dimensions of economic, governance, social, ethical, and environmental performance as an improvement over the “People, Planet and Profits” agenda. Management thanked Kunal for his efforts and asked him to take up the project of getting a sustainability audit done for the Company.

In background of the above, answer the following:

Indicate the criteria to be met, for an activity or program to be considered as sustainable.

(3 MARKS)

ANS:

- (i) Sustainable development is a relatively new concept and is defined as “development that meets the needs of present without compromising the ability of future generations to meet their own needs.”
- (ii) For an activity or program to be considered sustainable, it should meet the following key criteria:

(a) Environmental responsibility:

Sustainability involves minimizing negative impacts on the environment, such as pollution and the depletion of natural resources. It also means using resources efficiently and encouraging conservation practices.

(b) Economic viability:

A sustainable activity should generate long-term economic benefits and be financially self-sustaining. It should create stable employment opportunities and contribute to the growth of local economies.

(c) Social equity:

Sustainability also requires promoting fairness, equality, and inclusiveness within all communities. Moreover, it ensures that health, safety, and education are protected and accessible for both present and future generations.

(d) Long term perspective:

Sustainability means meeting current needs while ensuring that future generations can also meet theirs. It involves planning to face future challenges such as climate change and resource shortages.

(e) Stakeholder engagement:

Sustainability involves engaging all relevant parties, such as community members, employees, and governments, in planning and decision-making. It also promotes transparency and accountability throughout the process.

- (iii) In short, a sustainable activity should be environmentally sound, economically feasible, socially just, future-focused, and inclusive.

QUESTION 1(B):

Explain the structured framework of sustainability audit. (JUNE 2025)

ANS:

- (i) Sustainability audit is a comprehensive assessment of an organization's environmental, social and economical impact, the purpose of the same is to identify areas where the organization can improve its sustainability performance and to minimize the impact on environment, society and economy.
- (ii) A sustainability audit is a look inside the company and is targeted to evaluate the company's current sustainable practices allowing the company to set out goals for improved sustainability performance.
- (iii) A sustainability audit typically follows a structured framework which includes the following steps:
- (a) Planning and preparation:** this is the first step which involves defining the scope and objective of the audit and preparing a plan for conducting the audit.
 - (b) Data collection and analysis:** Data collection and analysis involves gathering data of the organization's environmental/ social/ economic impacts as well as analysing the policies and practices adopted by the organization towards sustainability.
 - (c) Assessment and evaluation:** In this step collected data is analysed and evaluated, so this step typically benchmarks the performance of the organization against the industry standards and best practices.
 - (d) Report generation:** At this step the auditor summarizes the findings of the audit and provides recommendations.
 - (e) Implementation and monitoring:** this step involves taking action plan and implementing the same to ensure that the goals are met over time.
 - (f) Reporting and communication:** lastly it includes communicating the results to the stakeholders about the material findings of the sustainability audit.

QUESTION 2:

Write a short note on reporting principles and standard disclosures under global reporting initiative. (5 MARKS) (DEC 2021)

ANS:

(i) The global reporting initiative (GRI) is an organization which provides a framework for all the organization's as to how to report on sustainability. It is applies to all the organization's and helps them communicate their sustainability performance which in turn enhances their brand value.

(ii) Standard disclosures under GRI:

Three series of standards support the reporting process: the GRI topic standards, each dedicated to a particular topic and listing disclosures relevant to that topic; the GRI sector standards, applicable to specific sectors; and the GRI universal standards, which apply to all the organizations. These standards are used to determine what topics are material to report.

(a) GRI universal standards:

The GRI universal standards is the foundation of all the reports prepared using GRI framework.

1. **GRI-1 foundation** – this outlines the purpose of GRI standards, explains how these standards are to be used and all the requirements which an organization must comply to make a compliant report with the GRI standards.
2. **GRI-2 general disclosures** – this contains the general disclosures like Organization's overview, Objective and activities undertaken, Governance structure, Stakeholder engagement.
3. **GRI-3 material topic** – It helps the organization identify the material topics and also describes how the sector standards are to be used, so that an organization can move into the GRI sector standards.

(b) GRI sector standards:

The GRI sector standards intend to increase the quality, completeness, and consistency of reporting by organizations. Under GRI sector standards, initially there were only 40 sectors which included the major topics of impact like oil, gas, agriculture. If an applicable sector standard is available, an organization is required to use it when reporting with GRI standards.

(c) GRI topic standards:

The GRI topic standards contain disclosures for providing information on topics. This is the last series of standards which contain disclosures, relating to material topics for example standards on waste, occupational health and safety, and tax.

QUESTION 3:

Sustainability reporting being relatively new concept, what challenges do you foresee in mainstreaming sustainability reporting? (5 MARKS) (AUG 2021)

ANS:

Sustainability reporting is the process of communicating the social, environmental and governance effects of a company's operations to the stakeholders at large. In recent times, companies are increasingly reporting on ESG parameters voluntarily.

However, sustainability reporting being a new concept faces the following challenges:

- 1. Vague definition of sustainability:** there is no one definition of sustainability. This results in the ambit of sustainability becoming very large, and it could be difficult for companies to collate such a lot of information and present it in the form of a report.
- 2. Multiple reporting standards and frameworks:** globally there are various reporting standards and frameworks such as global reporting framework (GRI). Each of these provide their own guidelines for sustainability reporting. This can result in challenges in reporting, based on each of these frameworks.
- 3. No clear proof of financial return on investment:** Although studies have shown that stakeholders reward companies with sustainable practices, there is no proper evidence for the same.
- 4. Time-consuming exercise:** given the extensive data that is required, sustainable reporting could be time consuming, especially for smaller companies.
- 5. Lack of awareness:** Lack of awareness about sustainability reporting is a major challenge. To address this, the government and corporate bodies should organize awareness programs, as they play a key role in driving these efforts. These programs should be held in collaboration with sustainability experts.
- 6. Cost factor:** Aligning reports with global standards (like GRI, SASB, or IIRC) may require adjustments in reporting processes or even business practices, which can be a costly affair.

QUESTION 4:

Ranil and Wicky, both graduates from IIT Chennai, wanted to setup a consulting firm in the governance and social sphere, given its relevance in the current scenario. They had done quite some research and noted that the ESG compliances are picking up pace, as more corporates, are looking forward to be ESG compliant and demonstrate their adherence to ESG principles. Meeting strong ESG standards, is a positive governance indication for organizations. It is estimated that the new mandate will impact not only more than 50,000 large and listed companies based in Europe, but also companies based outside of the region, having their subsidiaries or branch offices. Ranil and Wicky were making a presentation to one of the Directors of Xyloc Plc., about the ESG requirements, which included its compliances, benefits and challenges. In this context, explain the key changes companies should establish to prepare for the challenges ahead in accordance with the new ESG reporting mandates and regulations. **(7 MARKS) (DEC 2024)**

ANS:

- (i) Integrated reporting is a process based on the premise of integrated thinking which results into a periodic integrated report which discloses the value creation by an organization by an organization over the time and related communication about the aspects of value creation.
- (ii) It is a report that discloses the material information about the strategy, governance and performance which provides a clear and concise presentation of how the organization creates value, in short, medium and long term..
- (iii) To prepare for the challenges posed by new ESG (Environmental, Social, and Governance) reporting mandates and regulations, companies should implement several key changes across strategy, operations, and governance. These changes help ensure compliance, build stakeholder trust, and create long-term value.

(a) Strengthen ESG structure:

Companies should set up ESG and sustainability committee at the top level to lead and track progress. They should also clearly assign ESG roles to different departments so everyone works together.

(b) Integrate ESG into core business strategy:

Companies should include ESG goals in their business plans and decisions, making sure they match company goals and risks. They should also set clear targets, like cutting carbon emissions, with timelines to track progress.

(c) Upgrading data collection and reporting systems:

Companies should invest in reliable tools and platforms to efficiently collect, manage, and report ESG data. It's also important to standardize ESG data across all departments to maintain accuracy and consistency.

(d) Align with global reporting standards:

Companies should begin using recognized ESG reporting frameworks, to meet regulatory requirements and improve transparency.

(e) Build ESG culture:

Companies should train employees and leaders on ESG rules and sustainability to help them support ESG goals. They should also promote a culture of ethics, inclusivity, and care for the environment across the organization.

QUESTION 5:

Companies with high ESG [Environmental, Social, Governance] scores appear sustainable, boast fewer liabilities, build positive brand reputations and maintain strong relationships with their clients and stakeholders that eventually have an advantage to attract talent, impressing customers and raising capital.

Enumerate the key benefits, small to mid-sized companies can gain by starting an ESG program in respect of the following:

- (i) Competitive Advantage**
- (ii) Cost Reduction**
- (iii) More Attractive to Lenders and Investors**
- (iv) Supply Chain Prospects. (8 MARKS) (JUNE 2024)**

ANS:

- (i) Competitive advantage:** Having an ESG program can improve a company's image and build customer trust. Today, many consumers and clients prefer to support businesses that care about the environment and act responsibly. Small to mid-sized companies that focus on sustainability are more likely to attract these environmentally aware customers. In the past, tracking ESG data was difficult and required a lot of resources. Now, it's much easier due to different software's. This allows even smaller companies to run effective ESG programs and create value through their efforts.
- (ii) Cost reduction:** Having an ESG program helps small to mid-sized companies track important things like energy and water use, waste disposal costs, and raw material usage. By keeping an eye on these areas, companies can find ways to use resources more efficiently, which helps lower costs. ESG programs also improve overall operations,

reduce the risk of fines or penalties, help manage risks better, and can lead to new and better ways of doing things.

- (iii) **Most attractive to lenders and investors:** One of the biggest benefits of having an ESG program is that it helps attract investors and lenders. Recently they are showing interest in companies that focus on ESG compared to those that don't. Studies have shown that companies that make ESG a priority often perform better than their competitors, making them more appealing to investors and lenders.
- (iv) **Supply chain prospects:** Just like investors, many companies are now paying more attention to ESG when choosing their supply chain partners. Since supply chains impact the environment, people, and society, companies that take ESG seriously prefer to work with suppliers who share their sustainability values. Many large companies have already adopted ESG practices, so it's more beneficial and sometimes even necessary for suppliers to have an ESG program in place to build strong partnerships and attract new business.

QUESTION 6:

What are the key drivers of sustainability reporting? (5 MARKS) (DEC 2018)

ANS:

Sustainability reporting is the process of communicating the social, environmental and governance effects of a company's operations to the stakeholders at large. Financial reporting alone is often not enough to meet the expectations stakeholders. Sustainability reporting helps organizations show their progress not just in financial areas, but also in protecting the environment and supporting social well-being. Some of the key drivers of sustainability reporting are-

- (a) **Customers:** Public opinion and consumer preferences, have a strong influence on companies especially those that rely heavily on consumers. These factors can shape a company's reputation and impact customer loyalty and sales.
- (b) **Laws and regulations:** Governments at various levels are increasing pressure on companies to report the environmental impact of their operations. Laws and regulations are becoming more advanced and now cover a broader range of activities.
- (c) **Media:** Public reaction to a company is shaped not just by its customers but also significantly by the media. The media serves as a powerful channel that informs the public about a company's behaviour, decisions, and impact on society and the environment.

- (d) **Peer pressure from other companies:** Every company belongs to an industry and faces pressure from peers as well as opportunities for partnerships. Following industry standards for sustainability reporting is important, especially for companies that work within the same supply chain.
- (e) **Investors:** Increasingly, investors want to make sure that the companies they invest in have responsible, sustainable, and long-term business strategies. Investors are placing greater emphasis on these factors when making decisions.
- (f) **Company themselves:** Corporations feel pressure to develop credible sustainability policies supported by clear performance measures, while also focusing on profitability. Stakeholders are increasingly demanding transparent sustainability reporting and concrete proof of the results achieved.

