

CA FINAL

**HANDWRITTEN NOTES
ADVANCED AUDITING**

For MAY 24 & onwards

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CHAPTER - 18

SUSTAINABLE DEVELOPMENT GOALS (SDG) & ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) ASSURANCE

★ Overview of Chapter :

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Concept 1 : What is Sustainability

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Concept 1 What is Sustainability ??

- Sustainability Encompasses How natural systems work, Continue to be diverse and yield Everything required for Environment to remain balance now & in future.
- It is concept related to Development of products, goods & services to meet our present needs without compromising ability of future generations to fulfill their own needs.
- It recognises that Environment is an Exhaustible resource. So use environment & its resources rationally and protect it for the good of Earth, Environment, humanity & all living things.

Concept 2 Sustainable Development [SD]

SD concept is named after Brundtland Report, which reports sustainable consumption in developed countries

Sustainable development is development that strives to meet needs of developing countries to achieve more sustainable world.

It address need of present moment without compromising future generation lifestyles.

Concept 3 3 Pillars of Sustainable Development

Sustainable development can be applied to corporate policy as it Encompasses following 3 pillars of sustainability :-

Environment

It stands for Corporate climate policies, Energy use, waste, pollutions, natural resources conservation & treatment of animals.
Person/Business is dependent on Environment for carrying out its operations.

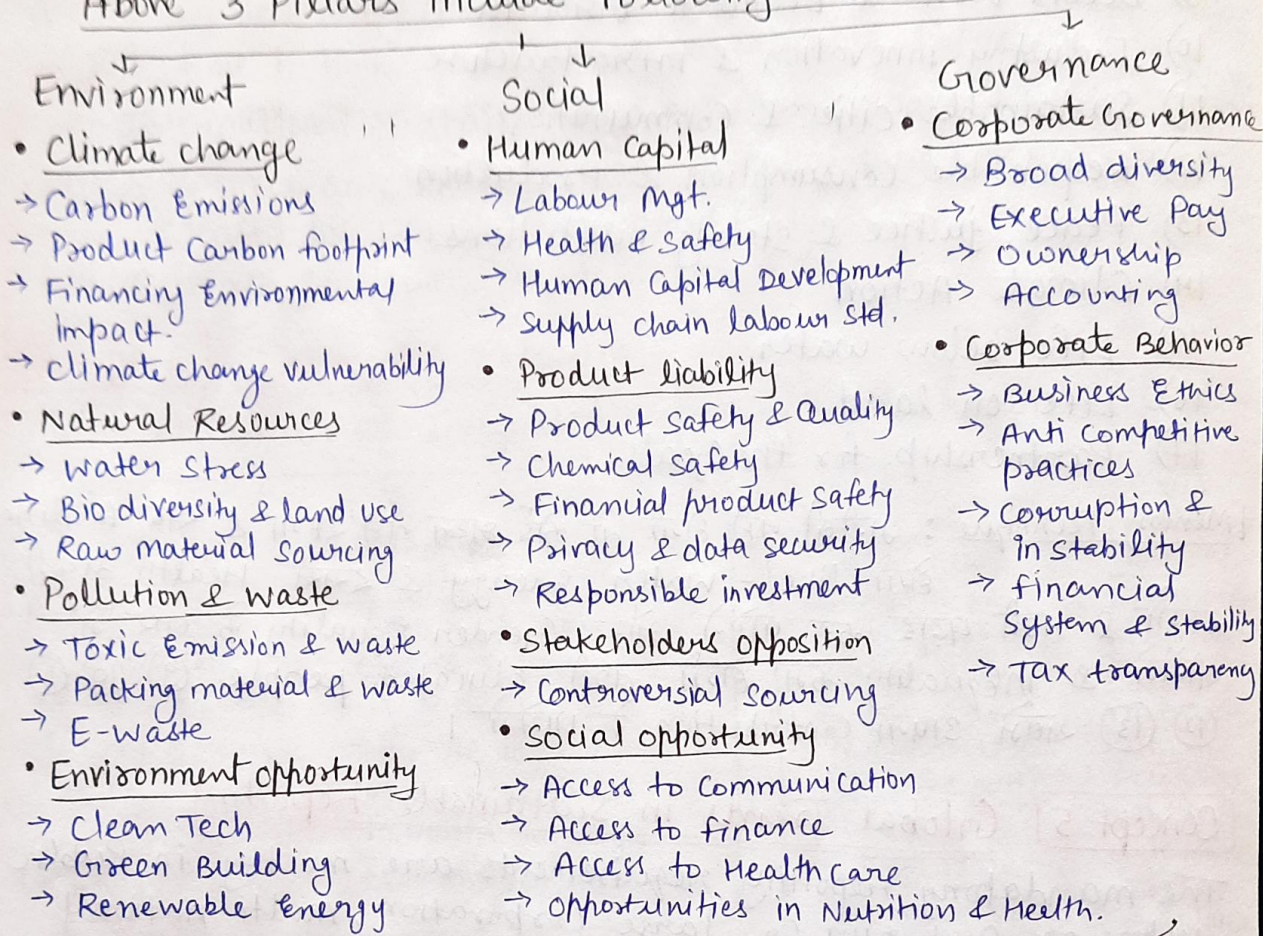
Social

It addresses relationship b/w Entity with people and institution where you do business & value chain involved.
Every company operates within broader and diverse society.

Governance

It is internal system of practice, control & procedures.
Adopted by Entity to govern
Entity itself, make effective investment decision, Comply with law & to meet needs of all stake-holders.

Above 3 Pillars include following Elements



(Remember 2-3 points of all subheadings of ESG for Exams.)

ESG reporting is all about Disclosure of info., data, metrics.
This reporting can be both quantitative & qualitative.

Concept 4 What is SDG & 17 SDG

In 2015, sustainable development was adopted by all United Nations member states to provide a blueprint, which mentions 17 SDGs.

SDG plays a key role in Evaluation of UN Systemwide implementation of 2030 Agenda and on advocacy and outreach activities.

Followings are 17 SDGs :

- 1) No Poverty
- 2) Zero Hunger
- 3) Clean water & Sanitization
- 4) Affordable & Clean Energy
- 5) Good Health & Well being
- 6) Quality Education
- 7) Gender Equality
- 8) Reduced Inequalities

- 9) Decent work & Economic Growth
- 10) Industry innovation & infrastructure
- 11) Sustainable cities & Communities
- 12) Responsible Consumption & Production
- 13) Peace, justice & strong institutions
- 14) Climate Action
- 15) Life below water
- 16) Life on land
- 17) Partnership for the Goals.

Memory Technique : गरीबी नहीं होगी तो कोई बुरा नहीं रहेगा & सब facilities होंगी like - water, energy & इससे Health अच्छी रहेगी & तभी पढ़ाई कर पायेंगे और Gender Equality के बारे में सीखेंगे & inequality कम होगी तभी educated people (9) (10) (11) (12) (13) सबमें अपना contribution दे पायेंगे।

Concept 5 Global Trends in Sustainable Reporting

The mandatory reporting requirements are mostly in Public sector or govt. run Co., large Corporation, multi-national business, listed Co. Etc.

Most widely used framework in world is Global Reporting Initiative (GRI) sustainability reporting standard having 93% of world's largest 250 Corporations report on their sustainability through GRI.

This organization is based in Amsterdam, the Netherlands & operational hubs in Brazil, China, Colombia, India, South Africa & United States.

Global Reporting Initiative (GRI)

It helps organization to report on Economic, Environmental & Social. This report addressed to all stakeholders of Entity.

Carbon Disclosure Project (CDP)

It captures Environmental performance data related to GHG Emissions, water, forest & Supply chain. This report addressed to all investors, buyers & other stakeholders of Entity.

International Integrated Reporting Framework (IIRF)

Establish guiding principles & Content element to produce integrated reports.

Report Consists

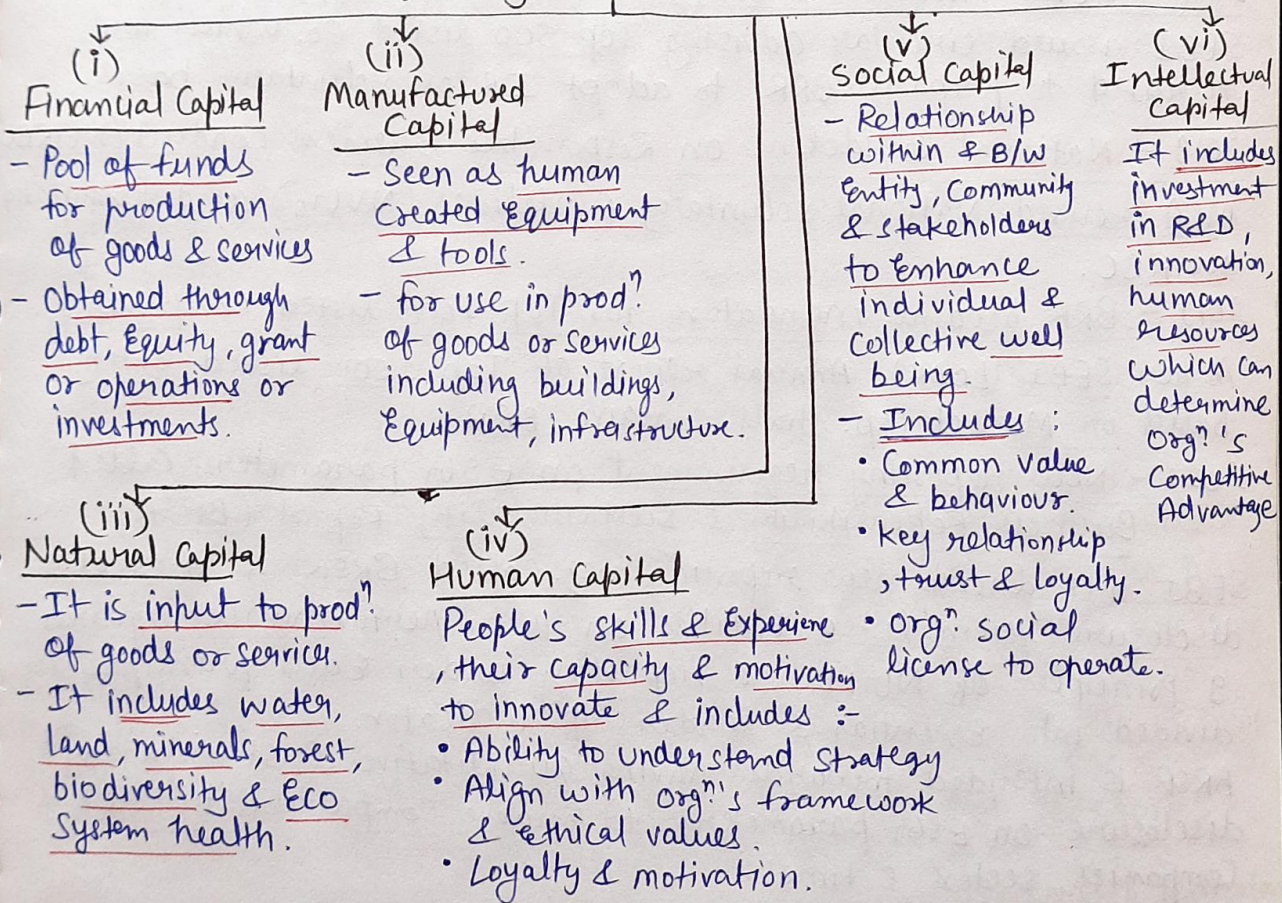
Org. Review Governance Structure Bus. Model Risk Oppor.

★ There are many Boards, framework and standards are set time to time for overall sustainable Reporting as -

- i) International sustainability standard Board (ISSB) - Nov, 2021
- ii) Task force on climate-Related Fin. Disclosure (TCFD) - 2015 created by Fin. stability Board (FSB)
- iii) Climate Disclosure standard Board (CDSB)

Concept 6 Integrated Reporting

There are 6 Cs of Integrated Reporting - Also known as 6 Capital



Concept 7 Evolution of ESG in India

2009 - 'CSR voluntary Guidelines 2009'

MCA issued for business to add value to operation & contribute towards long-term sustainability to encourage corporates to focus on → Ethical functioning → Rights & welfare of workers → Human rights → Environmental development

2011 - 'National Voluntary Guidelines on social, Environmental & Economic responsibilities of Business'

NVGS Contained Comprehensive Principles as part of business Practice

2012 - SEBI mandates top 100 listed Co. to file Business Responsibility Report (BRR)

Top 100 listed Co. by market Capitalization were required to file BRR & this report in line with ESG principles.

2015 - BRR became part of SEBI (LODR)

SEBI has prescribed format for BRR for reporting on ESG by listed Entities.

TOP 500 listed Co. by market Cap. were required to file BRR.

2017 - SEBI recommend Integrated reporting (IR)

SEBI issued circular advising Top 500 listed Co. which are required to prepare BRR to adopt IR on voluntary basis.

2019 - National Guideline on Responsible Business Conduct (NGRBC)

MCA revised National voluntary Guidelines (NVLs) and formulated NGRBC.

2019 - BRR became mandatory for Top 1000 listed Companies

As per SEBI (LODR), Annual report of Top 1000 listed Entity based on Market Cap. shall contain BRR.

2021 - New reporting requirement on ESG parameters called Business Responsibility & Sustainability Report (BRSR)

SEBI introduced new reporting req. called BRSR & it seeks disclosure from listed Entities on their performance against 9 principles of NGRBC & reporting under each principle is divided into essential & leadership indicator.

BRSR is Intended towards having quantitative & standardized disclosure on ESG parameters to enable comparability across Companies, sectors & time.

Concept 8 Initiatives taken by ICAI

- (i) In Feb 2020, ICAI constituted Sustainability Reporting Std. Board (SRSB). Mission of SRSB is to take appropriate ~~action~~ measure
- to increase awareness } Towards responsible Business
to implement measure } Conduct & developing audit guidance.
- (ii) ICAI introduced India's first award to celebrate business practice of integrated reporting as the emerging best practice in Corporate reporting.

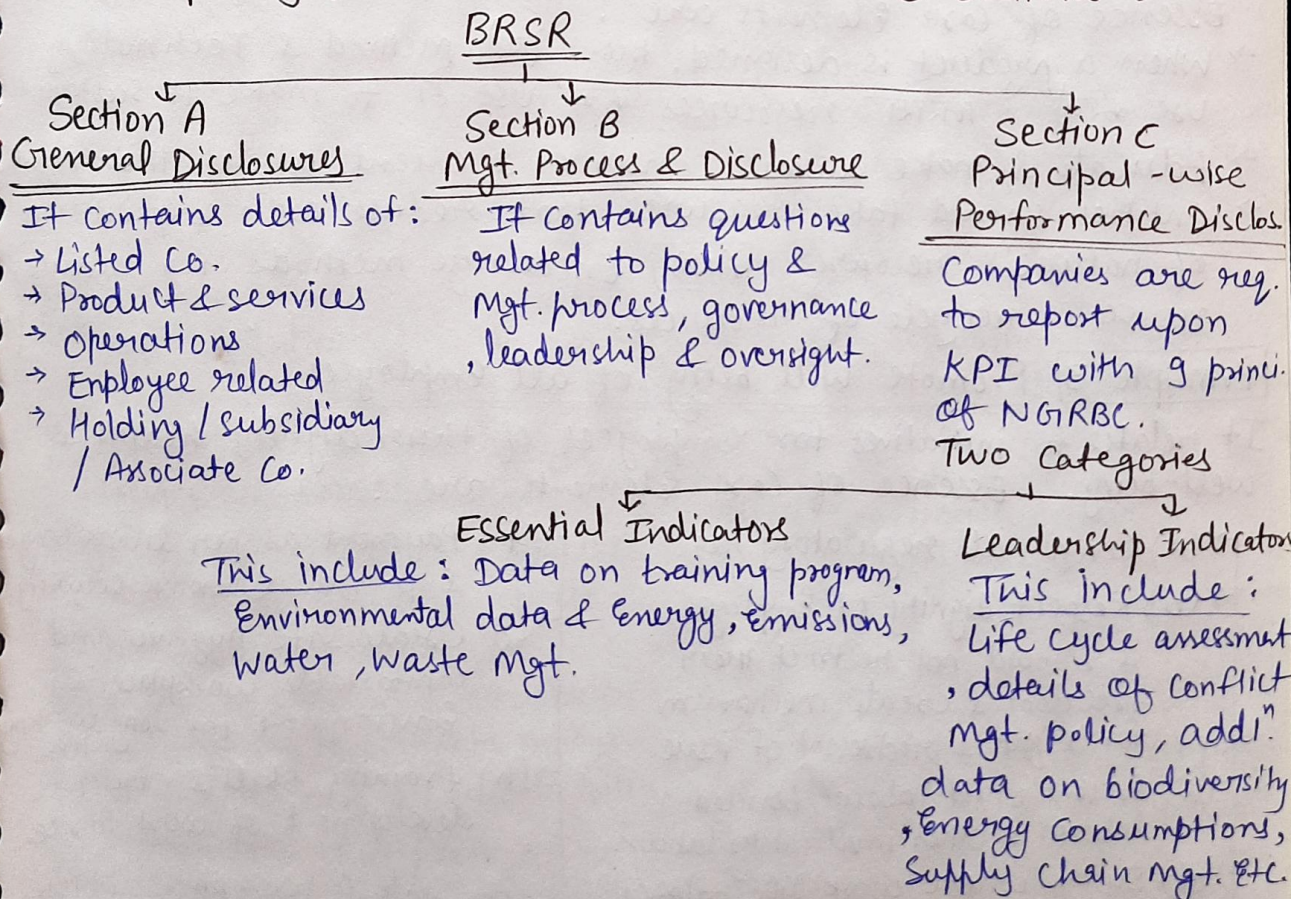
- (iii) ICAI has also started Certificate course on SDGs, BRR, IR.
- (iv) ICAI also proposed an ICAI Executive development program on BRR.
- (v) In last 2 years, ICAI has issued following publications:-
- SAE 3410 : Assurance Eng. on Greenhouse Gas Statements
 - Background material on BRSR
 - Sustainable development goals (SDGs) : Accountants Creating Sustainable world (SDG 1 to 17)
 - FAQs on sustainability Reporting - Heart
 - Sustainability Reporting Maturity Model (SRMM) : version 1.0

Concept 9 Bus. Responsibility & Sustainability Report (BRSR)

Reporting under BRSR is mandatory from F.Y. 2022-23.

Disclosure was voluntary in F.Y. 2021-22.

The reporting questionnaire is divided into 3 sections :



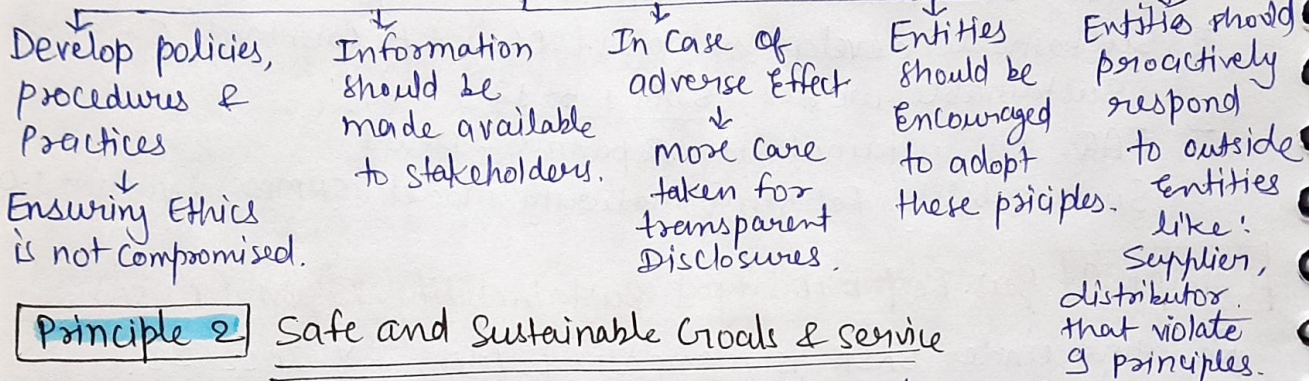
Concept 109 Principles of BRSR

Remember all principles by Name & No. correctly

Principle 1Ethics, Transparency & Accountability

1st Principle Emphasizes that business decisions in orgⁿ should be open to disclosure & accessible to relevant interested parties.

Essence of Core Elements are :

Principle 2Safe and Sustainable Goods & Service

The Entity should make sure that their goods, services & operations result in better life for consumers & end users.

Essence of Core Elements are :

- When a product is designed, then best method & Technology use krni & vikast resources krni use krni to make it sustainable.
- Educate & make aware consumer & client about their rights.
- Entities should take measures that reduce over exploitation of nature's resources [AND] Encourage methods for reduce, reuse & recycle of resources.

Principle 3Promote well being of all employees

It relates to initiatives for employees of their dignity, health & well-being. Essence of Core Elements are :

- | | |
|---|--|
| → (a) Comply all regulatory req.
→ (b) Respect dignity of Employee & should not restrict their freedom & create mechanism for rights & redressal of issue.
→ (c) Prevent child labour, bonded labour & other involuntary labour.
→ (d) System where work life balance of Employee is not compromised.
→ (e) Timely Payment of wages & Compensation. | → (f) Payment as per living wages & provide economic security.
→ (g) Create safe, hygienic and comfortable workplace & environment for long working hrs.
→ (h) training, skill & career development of work force.
→ (i) Create a workplace which is free of harassment & violence. |
|---|--|

Principle 4 Respect for Stakeholder's interest & responsiveness

Concept of interested party or stakeholders is related to quantity, environment or occupational health & safety of workers.

Essence of Core Elements are :

↓
Entities have to be transparent.

Communicate :

Impact of operations & business decisions.

Disclose :

Policies, decisions & impact of operation with No ambiguity.

↓
Systematically determine context of operations and identify their interested parties.

↓
Entities should fairly share benefits to stakeholders OR Give opportunity to them to benefit from operations.

Principle 5 Respect & Promote human rights

It refers to human rights issue that happen directly or indirectly due to operation of Business.

Essence of Core Elements are :

↓
Clear understanding of human rights & various ways of violation of rights.

↓
Integrate human right element into practice, policies & procedures while developing mgt. system.

↓
Recognize & respect human rights of all stakeholders.

Principle 6 Protection & Restoration of Environment

Environmental responsibility is a basic requirement for Economic prosperity and Sustainability.

Essence of Core Elements are :

→ (a) Policies, procedures & practices to assess & rectify impacts to Environment.

→ (b) Use of Natural & manmade resources in optimum manner to ensure their sustainability.

→ (c) Measure their performance to prevention of pollution, destruction of forest, waste generation, Energy use, land use etc.

→ (d) Contribute towards climate change resilience for commitment to various international mechanisms

→ (e) Comparison of activities with industry best practice to reduce, reuse & recycle materials & resources.

→ (f) Look out for avenues by which they can improve their performance.

Principle 7 Influence on Public & Regulatory Policy

Influencing policy formulation recognizes that business operate within framework of statutory & legislative policies of governing authority. Principle further highlights that :

- The core element of BRSR are to have met holistically when orgⁿ go ahead with their contribution to policy formulation & policy advocacy.
- Collective association such as trade group & industry chamber have to be utilized for policy advocacy & formulation.
- Orgⁿ role in policy advocacy in such a way that encourage fair competition & prevents human rights abuses.

Principle 8 Promote inclusive growth & equitable development

This can work only with close participation & collaboration amongst entities, authorities, civil associations for better livelihood and assistance to marginalized communities.

Essence of core elements are :

- a) System to identify & address impact of activities on social, cultural & economic aspect of people.
- b) Review, measure & track adverse impacts of activities on society & environment & make action plans to mitigate.
- c) Make efforts to bring up creative products, technologies & business concerns to have well-being & better quality life.
- d) Review local & regional development priorities when designing CSR activities.
- e) Ensure that business induced displacement or relocation of communities does not happen, & in unavoidable cases should make sure to have mutually agreed, participative.
- f) All forms of intellectual property & traditional knowledge get deserve respect from orgⁿ.

Principle 9 Provide value to consumers in a responsible manner

Primary purpose of any business is to create or provide useful product & services to customer in exchange of reasonable profits.

Essence of core elements are :

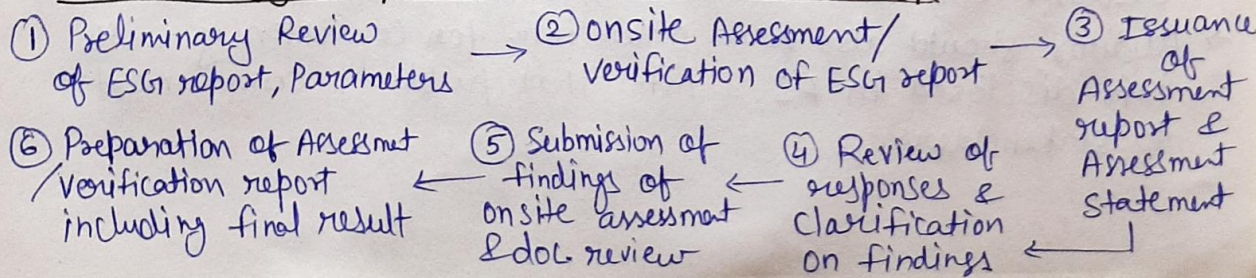
- i) Put effort to reduce negative impact of product & services on consumers, natural environment, society at large.

- ii) When Conceptualizing, designing & marketing their product, org. should not prevent freedom of choice & fair competition.
- iii) Transparently & accurately disclose adverse impact to users, planet and society.
- iv) Privacy of customer data should be maintained.
- v) Inform customer about ways of usage, reuse, recycling & disposal of their products & ways to eliminate over-consumption.
- vi) When advertising, ensure that misleading & confusing info is not exposed.
- vii) Transparent & accessible grievance redressal & feedback mgmt. system.
- viii) Entity providing essential goods/services (E.g. utilities), should enable universal access. (It means जिसके services discontinued हो गई है उनको भी access देना पड़ेगा।)

Concept 11 Assurance in BRSR

- SEBI has currently started with Top 1000 listed Co. but very soon, remaining listed Co. would also need to comply.
 - BRSR would be main doc. for disclosing sustainability which stakeholders & investor would review and do industry analysis.
 - Assurance in this reporting becomes more critical, So ICAI issued Std. on sustainability Assurance Eng (SSAE) 3000
It deals with assurance Eng. on Entity's sustainability info.
Intended users: Assurance providers, Entities, Regulators, investors & other users.
- Effective date of application of SSAE 3000 :
- Voluntary - Period ending on 31st March 2023
 - Mandatory - Period ending on or after 31st March 2024.

★ Methodology to provide assurance on BRSR :-



Concept 12 Social Audit Standards

- Sustainability Reporting Std. Board of ICAI issued Social Audit Std. (SAS 100 to 1600).
- Std. aim to provide Social Auditor with necessary guidance about
 - Independent impact assessment Eng. of Social Enterprises
 - Audit steps & procedures while conducting social impact assessment.
- This std. set minimum requirements to be followed while conducting impact assessment.
Law & Reg. may establish addl. requirements.

Concept 13 Role of Auditor - Consideration of climate related risk in audit of FS

- Role of auditor is to obtain reasonable assurance about whether FS free from material misstat. due to fraud or Error.
- In developing the understanding of Entity, auditor should include climate related risk & how risk may be relevant. These risk is more relevant in banks, insurance, energy, transportation, materials & building, agriculture, food, forestry products etc. sectors or industries.
- With increased focus of investor & stakeholders, auditor need to be aware or face pressure of transparency about climate matters in auditor's report & report must follow requirements of applicable SAs.
- Auditor's report is a key mechanism of communication about how audit was performed, audit opinion, auditor's responsibilities, when required then understanding of most significant matters in audit & how they were addressed.
Sometimes, Report include EOM or OM to user's understanding of FS.
Auditor should also determine whether Entity appropriately disclosed climate related info. in FS. in accordance with FRF.
- Auditor should also read other info. for consistency with info. disclosed in FS. & info. that publicly communicated to stakeholders.