

SDG AND ESG ASSURANCE

Meaning of Sustainability and Sustainable Development Sustainability

(a) Sustainability

- Sustainability is related to development of products, goods and services that involves meeting our present needs without compromising ability of future generations to fulfil their needs.
- Sustainability as a concept recognises that environment is exhaustible resource. Hence, it is important to use environment & its resources rationally and protect it for the good of the Earth, environment, humanity and all living things.

(b) Sustainable Development

- Development that strives to meet the needs of developing countries seeking to achieve a more sustainable world.
- It addresses the needs of the present moment without compromising current and future generations to meet their own sustainable lifestyles.
- It can be applied to corporate policy in business world as it encompasses three pillars of sustainability, i.e., Environment, Social and Governance.

Three Pillars of Sustainability – ESG

(1) Environment (E)

- Environment stands for corporate climate policies, energy use, waste, pollutions, natural resource conservation and treatment of animals.
- It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on.

(2) Social (S)

It addresses the relationships the entity has and reputation it fosters with people and institutions in the communities where it is doing business & value chain involved.

(3) Governance (G)

Internal system of practices, controls and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law and meet the needs of all stakeholders.

NOTE

- ESG reporting is all about disclosure of information, data, metrics that explain the added value in these three areas.
- ESG reporting can be both quantitative and qualitative in nature.
- Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked to each area in order to measure progress against goals and report on achievements.

Sustainable Development Goals (SDG)

17 SDGS

- GOAL 1 : No Poverty
GOAL 2 : Zero Hunger

GOAL 3	: Good Health and Well-being
GOAL 4	: Quality Education
GOAL 5	: Gender Equality
GOAL 6	: Clean Water and Sanitation
GOAL 7	: Affordable and Clean Energy
GOAL 8	: Decent Work & Economic Growth
GOAL 9	: Industry, Innovation & Infrastructure
GOAL 10	: Reduced Inequality
GOAL 11	: Sustainable Cities and Communities
GOAL 12	: Responsible Consumption & Production
GOAL 13	: Climate Action
GOAL 14	: Life Below Water
GOAL 15	: Life on Land
GOAL 16	: Peace, Justice & Strong Institutions
GOAL 17	: Partnerships to achieve the Goal

Global Trends in Sustainable Reporting

(a) Meaning of Sustainable Reporting

- Entity's practice of reporting publicly on its economic, environmental, and/or social impacts, & hence its contributions – positive or negative towards goal of sustainable development.
- Sustainability reporting refers to information that an entity provides about their performance to outside world on a regular basis in a structured way.
- It is the comprehensive mechanism of measuring & disclosing sustainability data with performance indicators and management disclosures.

(b) Benefits of Sustainable Reporting

- Help stakeholders to understand organizations performance vis a vis sustainability and impacts. Reporting process emphasizes link between financial & non-financial performance.
- Help entities to focus on long-term value creation, by addressing ESG issues. Since investors are recognising that environmental & social issues provide both risks & opportunities in respect of their investments and seeking disclosures on environmental & social performance of businesses, they can use ESG performance of companies to make investment decisions.
- Investing in social and environmental issues will not only improve own business continuity of companies but also put them in a better position with their B2B (Business to Business) customers as well as enable them to acquire new ones.

(c) Global Trends in Sustainable Reporting / Frameworks for Reporting

(1) Global Reporting Initiative (GRI)

- Helps organizations to report on economic, environmental & social impacts.
- General disclosures which are required to be reported under this standard are Economic, Environment and Social.
- Report is addressed to all the stakeholders of the entity.

(2) Carbon Disclosure Project (CDP)

- Captures environmental performance data which is related to GHG emissions, water, forests, and supply chain.

- Major details required to be reported are climate change, Forest and Water security.
- This report is addressed to all the investors, buyers, and other stakeholders of the entity.

(3) International Integrated Reporting Framework

- IIRC has established guiding principles and content elements in order to allow the companies to produce integrated reports.
- Report consists of Organisational overview, Governance structure. Business model, risks & opportunities, strategy, performance, outlook etc.

Integrated Reporting (6 Capitals)
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(a) Financial Capital

- Funds available to the organization for use in production of goods or provision of services.
- Raised through financing such as debt, equity or grants; or generated through operations or investments.

(b) Manufactured Capital

- Seen as human-created, production-oriented equipment and tools.
- Available for use in production of goods or provision of services.
- Includes buildings, equipment, infrastructure (such as roads, ports, bridges and waste treatment plants).

(c) Natural capital

- Includes water, land, minerals and forests, biodiversity, and ecosystem health.
- Natural capital is an input to the production of goods or the provision of services.

(d) Human Capital

People's skills, experience, capacity and motivations to innovate, including their:

- Alignment with and support of organization's governance framework & ethical values such as its recognition of human rights.
- Ability to understand and implement an organization's strategy.
- Loyalties and motivations for improving processes, goods & services including their ability to lead and to collaborate.

(e) Social Capital

(i) Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.

(ii) Includes:

- Common values and behaviour.
- key relationships, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners.
- an organization's social license to operate.

(f) Intellectual Capital

This accounts for the intangibles associated with brand and reputation, in addition to patents, copyrights, organizational systems and related procedures.

Illustration 1:

Babu Ltd. (a listed company) has been preparing and disclosing its sustainability report based upon internationally accepted reporting framework of “Integrated Reporting” on a voluntary basis even some years before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross referencing disclosures made under such reporting to disclosures sought under BRSR. The key thrust of “Integrated Reporting” is how company creates value over short, medium and long term. Following further information is provided in respect of the above company:

- (i) It has increased the number of customers using digital customer mobile app of the company from 2 lakhs users to 4 lakhs users. There is 100% increase in digital collection. It has benefitted customers of the company and resulted in use of digital methods for business operations of the company.**
- (ii) It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.**

Discussing above information, identify which of the capitals of “Integrated Reporting” are being referred to at (i) and (ii) respectively?

Solution: The information at (i) states that company has increased the number of customers using digital mobile app. Besides, it has led to 100% increase in digital collection. Therefore, it involves use of technology for deriving business benefits. It has invested in innovation deriving business benefits from digitization. The capital referred to at (i) is “Intellectual Capital”.

Increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at (ii) is “Social & Relationship Capital.”

Legal Framework of ESG in India

(a) NGRBC

MCA formulated the National Guidelines on Responsible Business Conduct (NGRBC) in 2019.

(b) BRSR

- As per Reg. 34(2) of SEBI (LODR) Regulations (as amended), annual report of top 1,000 listed entities based on market capitalization shall contain a business responsibility report.
- SEBI introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR).
- BRSR seeks disclosures from listed entities on their performance against 9 principles of the ‘NGRBC’ & reporting under each principle is divided into essential & leadership indicators.
- Essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavour to report the leadership indicators also.
- BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time.

Business Responsibility & Sustainability Report (BRSR)

(a) Reporting Questionnaire

Reporting questionnaire is divided into three sections:

(i) Section A – General Disclosures:

It contains details of the listed companies, its products, services, operations, employee related details, its holding, subsidiary, associate companies etc.

(ii) Section B – Management and Process disclosures:

It contains questions related to policy and management processes, governance, leadership and oversight.

(iii) Section C – Principle-wise performance disclosures:

It contains reporting over Key Performance Indicators (KPIs) in alignment with the nine principles of the NGRBC.

The section classifies KPIs into two categories:

- **Essential indicators (Mandatory disclosures):** This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.
- **Leadership indicators (Optional disclosures):** It would include life cycle assessments, details of conflict management policy, additional data on biodiversity, energy consumptions, supply chain managements etc

(b) Nine Principles of NGRBC

(1) Principle 1 – Ethics, Transparency and Accountability

- (i) Business decisions should be open to disclosure and accessible to the relevant interested parties.
- (ii) Essence of the core elements:
 - Governing structure should develop policies, procedures and practices for their offices, factories and work areas ensuring that ethics is not compromised.
 - Information relating to policies, procedures and practices along with the performance should be made available to stakeholders.
 - In case of adverse effects, more care has to be taken for transparent disclosures.
 - Entities in the value chain should be encouraged to adopt these principles by the governance structure.
 - Entities should proactively respond to the outside entities that violate the 9 principles of the BRSRs.

(2) Principle 2 – Safe and Sustainable Goals and Service

- (i) Make sure that goods, services and the operations result in better life for the consumers and end-users.
- (ii) Essence of the core elements:
 - Production methods and technologies are to be devised in such a way so as to minimize the resource usage to make it sustainable.
 - Entities are responsible to educate and make aware their consumers and clients about their rights.

- Entities should take measures that reduce the over exploitation of nature's resources by consuming sustainably and encourage methods to reduce, reuse & recycling of resources.

(3) Principle 3 – Promote well-being of all employees including those in the value chain

- (i) Entity shall take all initiatives for the benefit of its employees from the point of view of their dignity, health, well-being.
- (ii) Essence of the core elements:
 - Ensure compliance with all regulatory requirements as far as employees are concerned.
 - Respect dignity of employee as a human being and should not restrict their freedom of associations, unions and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.
 - Prevent all kinds of child labour, bonded labour& any other forms of involuntary labour.
 - Work-life balance of the employees is not compromised.
 - Ensure timely payment of the worker's wages and compensation.
 - Payment of the wages has to be as per the living wages, that can take care of basic needs and provide economic security to the employees.
 - Create a workplace and work environment that is safe, hygienic, and comfortable for people to work.
 - Ensure skill development, career development and training of the workforce.
 - Creation of a workplace which is free of harassment and violence.

(4) Principle 4 – Respect for stakeholders' interests and responsiveness

- (i) Consider the interests and perspectives of all stakeholders, including shareholders, employees, customers, suppliers, and the communities in which they operate and should also be responsive to stakeholder concerns and feedback.
- (ii) Essence of the core elements:
 - Entities have to be transparent & communicate with stakeholders about the impacts of their operations and business decisions on people and the nature.
 - Policies, decisions, and impact of the operations of the organisation to the stakeholders have to be disclosed transparently with no ambiguity on the extent of the issues.
 - Systematically determine context of their operation and identify their interested parties.
 - Fairly share benefits to the stakeholders or give an opportunity to them to benefit from the operations in an equitable manner.

(5) Principle 5 – Respect and promote human rights

- (i) Companies should respect & promote human rights, including rights to freedom of expression, association, and privacy. Human rights violations in operations and value chains should be prevented and addressed.
- (ii) Essence of the core elements:
 - Entities should have clear understanding of human rights and various ways by which human rights can be violated from the perspective of the Constitution of

India, national laws and policies and the content of International Bill of Human Rights.

- Integrate human rights element into the policies, procedures and practices.
- Recognize and respect human rights of all relevant stakeholders and groups within and beyond the workplace, including that of communities, consumers & marginalized groups.

(6) Principle 6- Protection and restoration of Environment

(i) Environmental responsibility – a basic requirement for economic prosperity & sustainability.

(ii) Essence of Core elements:

- Policies, procedures and practices are in place to assess & rectify impacts to environment.
- Natural & manmade resources to be used in an optimum manner to ensure sustainability.
- Measure performance relating to prevention of pollution, destruction of forests , waste generation, energy use, land use, etc.
- Contribute towards climate change resilience in line with India’s commitment to various international mechanisms.
- Explore the comparison of its activities with industry best practices to reduce, reuse and recycle/recover materials, resources.
- Look out for avenues by which they can improve their performance towards various environmental responsibilities.

(7) Principle 7 – Influence on Public and Regulatory Policy

(i) Businesses operate within framework of statutory & legislative policies of governing authority.

(ii) Essence of Core elements:

- Core elements of BRSR to be met holistically when the organisation go ahead with their contributions to policy formulation and policy advocacy.
- Collective associations such as trade groups and industry chambers have to be utilized when moving ahead with policy advocacy and formulation.
- Role in policy advocacy should be in such a way that it encourages fair competition and prevents human rights abuses.

(8) Principle 8 – Promote Inclusive Growth and equitable development

(i) Create economic opportunities for all including marginalized communities & also to development of local communities and support social and economic empowerment.

(ii) Contribute Essence of Core elements:

- Entities should have systems in place to identify and address impacts of their activities on social, cultural and economic aspects of the people.
- Review, measure and track the adverse impacts of the activities on the society and environment and make action plans to mitigate them adequately.
- Make efforts to bring up creative products, technologies and business concerns that help the marginalized communities to have well-being & a better quality of life.

- When designing the CSR activities, entities should review local and regional development priorities to help the marginalized groups and communities.
- Ensure that business induced displacement or relocation of communities does not happen and in unavoidable cases, make sure to have mutually, agreed, participative and informed negotiations to provide fair compensation to the affected people.
- All forms of intellectual property and traditional knowledge should get deserved respect and efforts should be made to ensure that benefits derived from their knowledge are shared equitably.

(9) Principle 9- Provide value to the consumers in a responsible manner

(i) The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

(ii) Essence of Core Elements:

- Put efforts to reduce negative impacts of the products and services on consumers, natural environment and society at large.
- When conceptualizing, designing and marketing the products, entity should not in any manner prevent the freedom of choice and fair competition.
- Entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.
- When handling customer data, right to privacy of customer needs to be maintained.
- Inform the customers on the safe and responsible ways of usage, reuse, recycling and disposal of their products and ways to eliminate over-consumption.
- When advertising the products, ensure that misleading and confusing information is not exposed to the customers.
- Make available transparent & accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.
- Entities, when engaged in providing essential goods & services, should enable universal access in a non-discriminatory and responsible manner.

(c) Assurance in BRSR

- SEBI has currently started reporting of BRSR with top 1,000 listed companies. But in due course, remaining listed companies would also need to comply with provisions of BRSR
- BRSR is expected to be used as a single means for disclosing sustainability related information in India. This would be the main document which the stakeholders, investors would review and do industry analysis. Hence, assurance in this reporting becomes more critical.
- ESG audit would be a process that would help the companies to evaluate the environmental and social risks for the Company's products, services, operations etc.
- Conducting an ESG audit helps businesses look at their supply-chain risks, risk management capabilities and transparency with shareholders.

Standard on Sustainability Assurance Engagements (SSAE)

- (i) ICAI has issued Standard on Sustainability Assurance Engagements (SSAE) 3000 “Assurance Engagements on Sustainability Information”. SSAE 3000 deals with assurance engagements on an entity’s sustainability information. This is an umbrella standard applicable to all assurance (Reasonable or limited) engagements on Sustainability information.
- (ii) The intended users of this Standard include:
 - Assurance providers providing assurance on sustainability information.
 - Entities seeking to engage a professional auditor.
 - Regulators, investors, and other users of Sustainability Reporting data.
- (iii) The effective date of application of SSAE 3000 is as follows:
 - Voluntary basis for assurance reports covering periods ending on 31st March 2023.
 - Mandatory basis for assurance reports covering periods ending on or after 31st March 2024.
- (iv) ICAI has also issued SAE 3410, “Assurance Engagements on Greenhouse Gas Statements” which deals with assurance engagements to report on an entity’s GHG statement..

Methodology to provide assurance on BRSR

- (i) Step 1: Preliminary Review of ESG report, parameters
- (ii) Step 2: On-site Assessment/Verification of ESG Report
- (iii) Step 3: Issuance of Assessment Report and Assessment Statement
- (iv) Step 4: Review of the responses and clarifications on the findings
- (v) Step 5: Submission of findings of the onsite assessment and document review
- (vi) Step 6: Preparation of Assessment/Verification report including final results of Assessment.

(d) Social Audit Standards (SASs)

- Sustainability Reporting Standards Board (SRSB) of ICAI has issued SASs so as to provide Social Auditor with the necessary guidance in relation to independent impact assessment engagement of Social Enterprises engaged in various areas and audit steps and procedures that should be applied while conducting the social impact assessment.
- Standards sets out the minimum requirements to be followed while conducting impact assessment. Laws or regulations may establish additional requirements which should be followed, as applicable.

Role of Auditor – Consideration of Climate Related Risks in an Audit of F.S.

(a) To obtain Reasonable Assurance

Role of auditor is to obtain reasonable assurance about whether the F.S. as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the F.S. are prepared and presented fairly, in all material respects, in accordance with the applicable FRF.

(b) Consideration of Climate Related Risks in Understanding the Entity

- In developing understanding of an entity, auditor should include consideration of climate related risks and how these risks may be relevant to the audits.

- Climate-related risks could be more relevant in certain sectors or industries, e.g., banks & insurance, energy, transportation, materials and buildings, agriculture & food products.
- Stakeholders are seeking information from auditor's reports about how climate-related risks were addressed in the audit. Hence, auditor need to be aware of and may face, increasing pressure for transparency about climate matters in auditor's reports.

(c) Auditor's Report

- Auditor's report is a key mechanism of communication to users about the audit that was performed.
- In addition to audit opinion, it provides information about auditor's responsibilities and when required, an understanding of the matters of most significance in the audit and how they were addressed.
- In some circumstances, it may warrant inclusion of an EOM paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of F.S.
- Auditor should determine whether entity has appropriately disclosed relevant climate related information in F.S. in accordance with the applicable FRF e.g., Ind-AS or Ass, when relevant before considering climate-related matters in the auditor's report.

(d) Reading the Other Information

To comply with the requirements of SA 710, auditor should read other information for consistency with information disclosed in F.S. & information that is publicly communicated to stakeholders outside the F.S., such as management report narratives in the annual report.