

# 18. “SDG and ESG Assurance”

## PART- I DESCRIPTIVE QUESTIONS

### 18.1 - Global Trends in Sustainable Reporting

**Q.1.** Mr. X recently joined a listed company after qualifying CA final exams. Although that company is not amongst top 1000 listed companies in the country, it wants to include “Sustainability reporting” in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. “Sustainability Reporting” seems to be new buzzword in corporate circles and Mr. X is assigned responsibility for collating all the information required for such reporting.

In above context, dwell upon what is your understanding of “Sustainability reporting and list some of its expected benefits?

**Ans: Meaning of Sustainable Reporting:**

- Entity’s practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions-positive or negative- towards the 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.

**Benefits of Sustainable Reporting**

- Help stakeholders to understand organizations performance vis a vis sustainability & 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.

**Q.2.** What are the global trends in sustainable reporting?

**Ans: Global trends in sustainable reporting:**

**(A) 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.

**(B) 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 & Water security.
- This report is addressed to all the investors, buyers, and other stakeholders of the entity.

### (C) 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.

## 18.2 - Integrated Reporting

**Q.3.** What are the 6 C's of Integrated reporting?

**Ans:** **6 C's of Integrated reporting:**

- (i) 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.
- (ii) Manufactured Capital:** Seen as human-created, production-oriented equipment & 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).
- (iii) Natural Capital:** Includes water, land, minerals & forests, biodiversity, & eco system health.
- (iv) 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; and Loyalties and motivations for improving processes, goods & services including their ability to lead and to collaborate.
- (v) Social Capital:** Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.
- (vi) Intellectual Capital:** This accounts for the intangibles associated with brand & reputation, in addition to patents, copyrights, organizational systems & related procedures.

## 18.3 - Legal Framework of ESG in India

**Q.4.** What type of companies are required to mandatorily furnish the Business Responsibility and Sustainability Report (BRSR) as per the SEBI circular with effect from FY 2022-23?

**Ans:** **Companies required to mandatorily furnish BRSR:**

- As per Reg. 34(2) of SEBI (LODR) Regulations, 2015 (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 'National Guidelines on Responsible Business Conduct (NGBRC)' & reporting under each principle is divided into essential & leadership indicators.

## 18.4 - Business Responsibility & Sustainability Report (BRSK)

**Q.5.** What are the nine principles of BRSR? How are the nine principles of BRSR linked with the 17 UN Sustainable Development Goals?

**Ans: Nine Principles of BRSR:**

- (1) Principle 1-Ethics, Transparency and Accountability
- (2) Principle 2-Safe and Sustainable Goals and Service
- (3) Principle 3-Promote well-being of all employees including those in the value chain
- (4) Principle 4-Respect for stakeholders’ interests and responsiveness
- (5) Principle 5-Respect and promote human rights
- (6) Principle 6-Protection and restoration of Environment
- (7) Principle 7-Influence on Public and Regulatory Policy
- (8) Principle 8-Promote Inclusive Growth and equitable development
- (9) Principle 9-Provide value to the consumers in a responsible manner

**Alignment of BRSR Principles with SDGs:**

	P1	P2	P3	P4	P5	P6	P7	P8	P9
SDG 1			Y	Y				Y	
SDG 2		Y				Y	Y	Y	Y
SDG 3			Y					Y	
SDG 4			Y					Y	Y
SDG 5			Y	Y	Y			Y	
SDG 6		Y				Y		Y	
SDG 7		Y				Y	Y		
SDG 8		Y	Y		Y				
SDG 9		Y					Y		
SDG 10		Y					Y		
SDG 11			Y	Y			Y	Y	
SDG 12		Y				Y			Y
SDG 13		Y				Y	Y	Y	
SDG 14		Y				Y	Y	Y	Y
SDG 15		Y				Y	Y	Y	Y
SDG 16	Y		Y	Y	Y			Y	
SDG 17	Y						Y	Y	

**Q.6. What is the methodology of providing assurance in BRSR?**

**Ans: Methodology to provide assurance on BRSR:**

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

**18.5-Role of Auditor - Consideration of Climate Related Risks in an Audit of F.S.**

**Q.7. What is the auditor’s role on ESG aspects in an audit of financial statements of the Company?**

**Ans: Auditor’s role on ESG aspects in an audit of financial statements of the Company:**

**(A) 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, eg, 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.

**(B) 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.

**(C) 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.

## 18.6 - Comprehensive Case Study

**Q.8.** The agrochemical sector is about a \$35 billion Industry in India. The Indian agrochemicals market is segmented by product type (fertilizers, pesticides, adjuvants, and plant growth regulators) and application (crop-based and non-crop-based). India is one of the most prominent exporters of agrochemicals in the world and is being keenly looked at as an ideal hub for export-oriented production of agrochemicals. There has been a recent surge in the production of agrochemicals to overcome problems such as lack of right nutritious elements required for proper growth of crops, etc. While there is low awareness about the use and impact of agrochemicals, there is also a push from the industries to use more agrochemicals, linking it to better yield. The continuous and increased use of agrochemicals seems to have an adverse effect on humans, animals, and nature in whole.

The toxicity levels of the agrochemicals are harmful, not only to the workers in the manufacturing process but also to farmers, the soil, and the end consumers. The Central Insecticide Board (CIB) of India has categorized agrochemical toxicity levels based on a labeling system-using red, yellow, blue, and green labels-where red is the most toxic and green is the least. Most of the red-labeled products are banned abroad but are being sold in India due to the lack of a strong regulatory environment.

In India, it is estimated that almost 25% of the total amount of agrochemicals sold are counterfeit products. The quality and the efficacy of these counterfeit products differ from the original products, which can lead to reputational damages for the companies. Agrochemical companies need to add barcodes or other identifying technologies to their product packaging,

to allow end use consumers to check for authenticity. Also, since India is a multilingual country, the companies will have to publish the usage instructions in multiple languages. Company A and B are both listed companies and part of top 1000 listed companies. They are engaged in the production of agrochemicals. Company A has been looking for opportunities to comply with the recently launched and evolving guidelines for ESG in India while Company B on the other hand is just focused to increase revenue and profits. In December 2022, Company A made a decision to eliminate red-labeled products from its portfolio and to increase its research and development (R&D) spending to safeguard itself from the market shift due to the new regulatory norms; in 2022, it also discontinued yellow-labeled products. Company A is also planning to incur a small expenditure to improve their backend systems and provide for all its products a unique labeling system that is user friendly and interactive. At the other end of the spectrum, 14% of Company B's top-selling products are derived from red-and yellow labeled products.

Initially, Company A's phasing out of its toxic products negatively affected its revenues by 8%. But as the country's regulatory landscape evolves toward more stringent norms, Company A will be cushioned for regulatory changes and thus, would not face potential future downsides. Company B has recently witnessed a 9% year on year growth in revenue from the last financial year and is planning to increase the production of its bestselling product, an insecticide DDT, categorized as red labelled by the Central Insecticide Board. Company B has recently been approached by the regulatory authority for an investigation for its products which include performing additional tests and studies to testify that its products have no adverse effects.

**Ans: (1) Reporting Requirements:**

- As per Reg. 34(2) of SEBI (LODR) Regulations, 2015 (as amended), annual report of top 1000 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).
- Reporting questionnaire of BRSR 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:**

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

The section classifies KPIs into two categories:

- (a) Essential indicators (Mandatory disclosures):** This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.
- (b) 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.

**(2) Company absorbing impact of possible future regulatory changes:**

Company A has absorbed the impacts of possible future regulatory changes. Steps taken by Company A for complying with Regulatory Standards are:

- Elimination of red-labeled products from portfolio and increase of research and development (R&D) spending to safeguard from the market shift due to the new regulatory norms
- Discontinuation of yellow-labeled products in 2022.
- Plan to incur expenditure to improve backend systems and provide for all products a unique labeling system that is user friendly and interactive.

**(3) Auditor's Considerations:** Refer answer of Q. No. 7

## PART- II MULTIPLE CHOICE QUESTIONS

1. The norms of Extended Producer Responsibility (EPR) are applicable to a listed company required to do mandatory BRSR reporting, EPR norms require processing of plastic packaging waste through recycling, re-use or end of life disposal. The listed company has to register on portal of Central Pollution Control Board in this regard. Which principles requires such information?
  - (a) Principle 1
  - (b) Principle 2
  - (c) Principle 3
  - (d) Principle 4
2. BRSR reporting is founded upon 9 principles. Which of following is most appropriate description of Principle 2?
  - (a) It states that businesses should respect the interests of and be responsive to all its stakeholders.
  - (b) It states that businesses should respect and make efforts to protect and restore the environment.
  - (c) It states that businesses should provide goods and services in a manner that is sustainable and safe.
  - (d) It states that businesses should promote inclusive growth and equitable development.
3. One of 9 principles of BRSR reporting requires companies to provide details of social impact assessments (SIAs) of the projects undertaken by the company based upon applicable laws. Which principle is most likely to include such indicators?
  - (a) Principle 8
  - (b) Principle 1
  - (c) Principle 9
  - (d) Principle 3
4. A listed company is including sustainability reporting as part of its annual report in accordance with Global reporting initiative framework (GRI) on a voluntary basis. Such reporting talks about 6 capitals of integrated reporting. The company has launched a programme under the name of "Saksham" to standardise quality of its branch accountants spread across various towns of India including turnaround time (TAT) and operational efficiency. Under which capital above description needs reporting?

- (a) Intellectual capital
- (b) Social and relationship capital
- (c) Natural capital
- (d) Human capital

5. Business responsibility and sustainability reporting (BRSR) has become mandatory for certain listed companies from financial year 2022-23 in accordance with SEBI circular. The mandatory reporting is applicable to:

- (a) Top 1000 listed companies by revenue.
- (b) Top 1000 listed companies by profits before taxes.
- (c) Top 1000 listed companies by market capitalization.
- (d) Top 1000 listed companies as decided by SEBI in accordance with certain criteria in different sectors.

6. In Case of PSU, Direct Reporting Engagement does not include

- (a) Performance audits.
- (b) Compliance audits.
- (c) Financial audits.
- (d) Comprehensive Audit.

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#### Answer Key

- 1. (b) Principle 2
- 2. (c) It states that businesses should provide goods and services in a manner that is sustainable and safe.
- 3. (a) Principle 8
- 4. (d) Human capital
- 5. (c) Top 1000 listed companies by market capitalization

### PART- III INTEGRATED CASE SCENARIO

“Quick Push Finance Limited” is one of the top listed 1000 companies by market capitalization. As per a SEBI circular, Business Responsibility and Sustainability Report (BRSR) based on ESG parameters mandatory from financial year 2022-23 for top listed 1000 companies. The company is an NBFC and is engaged mainly in providing finance for commercial vehicles.

The report is to be prepared in three sections- Section A, B and C. Whereas Section A and B relate to general disclosures and management & process disclosures respectively, Section C of the report relates to principle wise performance disclosures. Under this section C, information is sought on each of the 9 principles of “National Guidelines on Responsible Business Conduct” (NGBRCs). This information is categorized on two indicators i.e., “Essential indicators” and “Leadership indicators”.

The said company has an anti-corruption/anti-bribery policy which is available on its website. Besides, the company has regularly conducted awareness programmes for its dealers highlighting relevant governance practices of the company.

The company is sensitive to environmental concerns. It has established mechanisms to recycle

hazardous e-waste in accordance with applicable laws. Further, disposal of paper waste is also made responsibly. It is also a member of 5 prominent industry chambers/trade associations including FICCI, CII and ASSOCHAM. Besides, regular inputs to government are provided by the company through various forums for improvement in administrative processes relating to automobile and financial sectors.

One of the NGBRC principles states that businesses should promote inclusive growth and equitable development. The scope of this principle is wide and quite encompassing. Many activities of company could fall under promotion of inclusive growth and equitable development.

The CFO of company is clueless as to preparation of BRSR. Help him out by answering the following questions.

Based upon above, answer the following questions:

- Q.1.** As regards anti-corruption/anti-bribery policy and organization of awareness programmes for dealers conducted during the year, which of the following is most likely to be true?
- (a) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of essential indicators.
  - (b) Having an anti-corruption/anti-bribery policy and organization of awareness programmes for dealers are in nature of leadership indicators
  - (c) Having an anti-corruption/anti-bribery policy is in nature of essential indicators. Organization of awareness programmes for dealers is in nature of leadership indicators.
  - (d) Having an anti-corruption/anti-bribery policy is in nature of leadership indicators. Organization of awareness programmes for dealers is in nature of essential indicators.
- Q.2.** As regards established mechanisms for recycle of hazardous e-waste and disposal of paper waste by company, which of the NGBRC principle(s) are involved?
- (a) Principle 5 only
  - (b) Principle 9 only
  - (c) Principles 6 and 9
  - (d) Principles 2 and 6
- Q.3.** Considering description of membership of various industry chambers/ trade associations and providing of inputs to government for improvement in administrative processes, which of the NGBRC principle is referred to?
- (a) Principle 8
  - (b) Principle 4
  - (c) Principle 3
  - (d) Principle 7
- Q.4.** Which of the following activities relates to the principle that businesses should promote inclusive growth and equitable development?
- (a) CSR projects undertaken by the company in designated aspirational districts of country
  - (b) Carrying out real time digital Net Promoter Score (NPS) with all public customers to gauge customer reactions and satisfaction
  - (c) Getting conducted “energy audits” in the company
  - (d) Conducting programmes to assist employees in finding employment after retirement
- Q.5.** Which of the following statements is true in respect of essential indicators and leadership indicators as far as their reporting In BRSR is concerned?

- (a) Both types of indicators are mandatorily required to be disclosed.
- (b) Essential indicators require mandatory disclosure whereas leadership indicators require voluntary disclosure.
- (c) Essential indicators require voluntary disclosure whereas leadership indicators require mandatory disclosure.
- (d) All indicators based information whether relating to essential indicators or leadership indicators is voluntary.

**Answer Key**

- 1. (c) Having an anti-corruption/anti-bribery policy is in nature of essential indicators. Organization of awareness programmes for dealers is in nature of leadership indicators.
- 2. (d) Principles 2 and 6
- 3. (d) Principle 7
- 4. (a) CSR projects undertaken by the company in designated aspirational districts of country.
- 5. (b) Essential indicators require mandatory disclosure whereas leadership indicators require voluntary disclosure.