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EDITORIAL NOTE

GREEN AUDIT

LIGHT HOUSE

**Editors note:**

Every year we see a new audit era. Over the years the profession has experienced HR accounting, Brand accounting, US GAAP, SOX and the latest Gizmos is IFRS, and hence the flavor of this season is IFRS. Slowly the flavor of the ongoing future is coming towards the environment. A finance professional has a lot to contribute to the society in the form of Climate audit, sustainability reporting. It is not just another professional job; it is our contribution to the society. As a part of the sustainability reporting, green audit is one of the important parts of it.

Many business houses are not sustainable, green consciousness is a part of life. Over the years, we have seen that corporate and business establishments have been closed down due to damage to the environment. Green audit can affect every business, including the construction activity, the manufacturing sphere, the technology industry and many more.

This edition brings to you the basic principles of green audit, and certain guide lines which are available in the world over today.

As we look ahead in the accounting fraternity, we see the writing on the wall "Green audit would be made mandatory at one point of time". Let us not wait for that day; we will start playing our role today.

**The sun, the moon and the stars would have disappeared long ago... had they happened to be within the reach of predatory human hands.**



## Green Audit:

“Inspection of a company to assess the total environmental impact of its activities or of a particular product or process.”

**Environmental audit** is a general term that can reflect various types or evaluations intended to identify environmental compliance and management system implementation gaps, along with related corrective actions.

- Compliance with legislation,
- Pressure from suppliers and customers,
- Requirements from insurers or for capital projects, or
- To demonstrate environmental activities to the public.

As the name implies, these audits are intended to review the site's/company's legal compliance status in an operational context. Compliance audits generally begin with determining the applicable compliance requirements against which the operations will be assessed. This tends to include sovereign regulations, state regulations, permits and local ordinances/codes. In some cases, it may also include requirements within legal settlements.

Compliance audits may be *multimedia* or *programmatic*. Multimedia audits involve identifying and auditing all environmental media (air, water, waste, etc.) that apply to the operations /company.

Programmatic audits (which may also be called *thematic* or *media-specific*) are limited in scope to pre-identified regulatory areas, such as air, water, etc.

Audits are also focused on operational aspects of a company/site, rather than the contamination status of the real property. Assessments, studies, etc. that involve property contamination/remediation are typically not considered an environmental audit.

Types:

- **Compliance audit** - the most common type of audit consisting of checks against environmental legislation and company policy;

- **Issues audit** - an evaluation of how a company's activities relate to an environmental issue or (e.g. global pollution, energy use) or an evaluation of a specific issue (e.g. buildings, supplies);
- **Health and safety audit** - an assessment of risks and contingency planning (sometimes merged with environmental auditing because of the interconnected impacts of industrial processes and hazards);
- **Site audit** - an audit of a particular site to examine actual or potential environmental problems;
- **Corporate audit** - an audit of the whole company and its polices, structures, procedures and practices;
- **Due diligence audit** - an assessment of potential environmental and financial risks and liabilities carried out before a company merger or site acquisition or divestiture (e.g.

Woodland in full color is awesome as a forest fire, in magnitude at least, but a single tree is like a dancing tongue of flame to warm the heart.



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**Internal Audit vs. green audit**

- **Activity or operational audit** - an assessment of activities that may cross company departments or units (e.g. energy or waste management) and
- **Product or life cycle audit** - an analysis of environmental impacts of a product throughout all stages of its design, production, use and disposal, including its reuse and recycling (cradle to grave).
- **External Audit**- 'An assessment of the condition of the local environment, usually resulting in a State of the Environment Report.
- **Internal audit** - consisting of two areas:

**'Policy Impact Assessment** - a review of the activities (objectives, services, practices and policies) of the authority.

**'Management Audit** - a review of the procedures and structures by which environmental policies are managed by the authority'

- Internal Audit needs to assure the management of a company about the integrity, consistency and timeliness of its externally reported information.
- Executives and boards are acutely aware of the growing demand for more transparent reporting of climate change and sustainability business strategies, initiatives and performance.
- Therefore, companies are now using many voluntary reporting channels, including external sustainability and annual reports, external websites, the Carbon Disclosure Project and the Climate Registry.

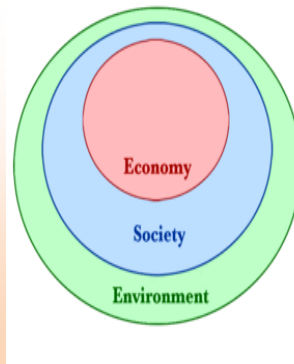
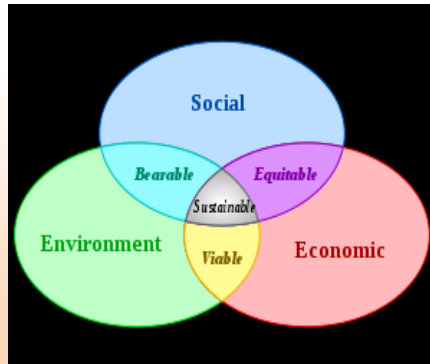
- Internal Audit can assist in evaluating the accuracy and credibility of sustainability reporting in advance of the increasing scrutiny this information is attracting from external stakeholders.

**Need:**

In the face of mounting pressure to be transparent, a growing number of organizations are choosing to report on sustainability or corporate social responsibility (CSR). Sustainability reports help readers understand how well the reporting organization adheres to the "triple bottom line" of environmental, social and economic performance. Typically released voluntarily, these nonfinancial reports also spotlight the sustainability-related risks and opportunities facing the reporting entity, whether it's a public or private company, a Govt agency, an academic institution or a nonprofit.

'Only God can make a tree,' probably because it's so hard to figure out how to get the bark on.

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Three pillars of sustainability

Failure to report on sustainability, by contrast, can increase risk. Companies that do not release sustainability information may appear less transparent than competitors that do, coming across as laggards even if they aren't. And those that report incompletely, or with insufficient rigor, may find that if reporting becomes mandatory and standards are tightened, glaring discrepancies might appear between past reports and newer ones. All of these factors have created momentum in the direction of more openness and more reporting.

- More than 3,000 companies worldwide issue sustainability reports.
- More than two-thirds of the Fortune Global 500 companies publish some form of sustainability or corporate responsibility report with a long-term trend. Although reporting is voluntary, the broad trend is toward greater disclosure.
- The risk for those not communicating their climate change data is that their stakeholders will seek this information from potentially less-reliable third party sources.
- Companies that do not report face challenges in ensuring that their reports are an effective communication tool.
- The information needs to be relevant, complete and in line with the expectations of stakeholders. Done well, it provides a company with the opportunity to present a clear picture of the measures it is taking to meet the challenges and opportunities of climate change.
- Some leading organizations are beginning to include their integrated financial and nonfinancial data in a single report.
- Stakeholder demand for transparency.

**The benefits of environmental auditing include:**

- Ensuring compliance, not only with laws, regulations and standards, but also with company policies and the requirements of an Environmental Management System (EMS) standard;
- Enabling environmental problems and risks to be anticipated and responses planned;
- To demonstrate that an organization is aware of its impact upon the environment through providing feedback;
- Increased awareness amongst stakeholders; and
- More efficient resource use and financial savings



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## **Related Standards:**

- **ISO 14000 Series**

The **ISO 14000** environmental management standards exist to help organizations

- (a) minimize how their operations (processes etc.) negatively affect the environment (i.e. cause adverse changes to air, water, or land);
- (b) comply with applicable laws, regulations, and other environmentally oriented requirements, and
- (c) continuous improvement in the above.

- **ISO 19011**

- ISO 19011 is an international standard that sets forth guidelines for:

- quality management systems auditing

- environmental management systems auditing

- It is developed by the International Organization for Standardization.

- **SA8000**

- **SA8000** is a global social accountability standard for decent working conditions, developed and overseen by Social Accountability International (SAI).

## **Reporting:**

- Reporting is now the norm, not the exception among the worlds largest companies. Since motivation for the reporting have shifted away from reactive and risk management factors and toward aspiration and innovative ones, reporting to become more common at the national level and in smaller companies in the near future.
- An organization that reports on its sustainability practices is expected to show not only where it has succeeded, but where it may have fallen short.

- This creates an element of reputational risk in the short term . But over the long term, the risk is out weighted by significant benefits.
- Better measurement of the organization's "triple bottom line" performance;
- Greater stakeholder trust; improved risk management; and increased operational efficiency.

People did not always enjoy the convenience of modern meteorology. Instead, they had to rely on the ability to observe and properly interpret nature's behavior.

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### BENEFITS

Financial

Strategic

If a company can demonstrate good environmental performance and an acceptable level of environmental liability to its stakeholders, it may benefit financially in that its share price may increase

Potential strategic benefits include improving the company image and building better relations with relevant stakeholder groups.

There is enough for all. The earth is a generous mother; she will provide in plentiful abundance food for all her children if they will but cultivate her soil in justice and in peace

- **Global Reporting Initiative (GRI) Guidelines for reporting:**

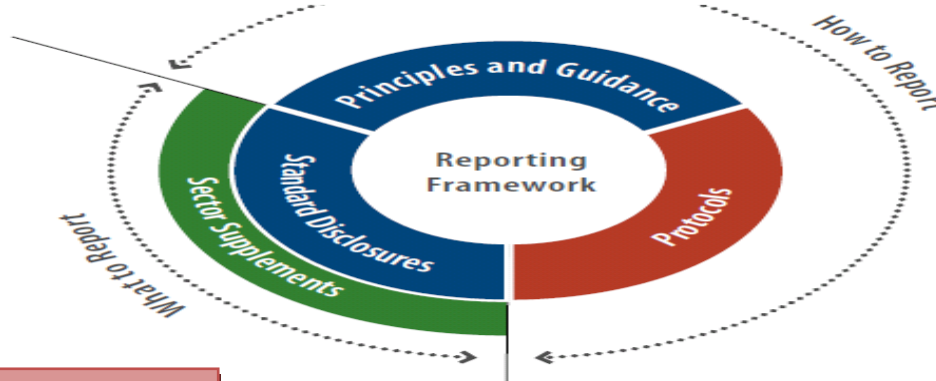
#### **Orientation to the GRI Reporting Framework:**

All GRI Reporting Framework documents are developed using a process that seeks consensus through dialogue between stakeholders from business, the investor community, labor, civil society, accounting, academia, and others. All Reporting Framework documents are subject to testing and continuous improvement.

**The GRI Reporting Framework** is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance. It is designed for use by organizations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization's sustainability performance

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Figure 1: The GRI Reporting Framework



**The Sustainability Reporting**

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development.

‘Sustainability reporting’ is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, etc.).

A sustainability report should provide a balanced and reasonable representation of the

sustainability performance of a reporting organization – including both positive and negative contributions. Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization’s commitments, strategy, and management approach. Reports can be used for the following purposes, among others:

- **Benchmarking** and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;

**Indicator Protocols** exist for each of the Performance Indicators contained in the Guidelines. These Protocols provide definitions, compilation guidance, and other information to assist report preparers and to ensure consistency in the interpretation of the Performance Indicators. Users of the Guidelines should also use the Indicator Protocols.

**Sector Supplements** complement the Guidelines with interpretations and guidance on how to apply the Guidelines in a given sector, and include sector-specific Performance Indicators.

Applicable Sector Supplements should be used in addition to the Guidelines rather than in place of the Guidelines.

**Technical Protocols** are created to provide guidance on issues in reporting, such as setting the report boundary. They are designed to be used in conjunction with the Guidelines and Sector Supplements and cover issues that face most organizations during the reporting

"Never doubt that a small group of thoughtfully committed citizens can change the world. Indeed, it's the only thing that ever has."

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## VOTE FOR PAPPU RAM

It was election time; the city elections were just round the corner. Every single wall in the street adorned the flags and posters of different political parties. The party symbols ranged from cycles, to hammers and also led to the wheels and bottles. Every body had their own story to tell, and every voter had their own tale of woe too.

Elections, the manifesto, the campaign, the mudslinging, the TV blitz, the paparazzi is all a part of our life. Elections just happened now and new election propaganda has already started. Everywhere - we vote.

"My name is Pappu Ram. I am contesting for elections from my state. My party name is 'Clean & Green Party'. We just have a single leaf, a dry leaf at

that, crying for help, as the symbol." Pappu ram was a 34 year old software professional.

Pappu ram had the handful of onlookers in tattered clothes listen to him partly. Pappu was unfazed as he went on with his duty. He completed his speech; he was undeterred that there were less than a dozen people around him. This bunch of people included a few kids, who just saw him in amazement, let alone, understand the poverty line or the WTO he reeled out in finesse.



Pappu ram was accompanied by two of his friends, a faithful car and his adorable wife. The election entourage of 4 people moved with courage and determination. Normally the election entourage in this locality was a grand ceremony with mike, music, thundering announcements, a large ensemble of people and litter. Pappu contested the elections without any of these; there were no pamphlets, no posters, no TV ads, and no corruption. He just went with his humble followership of 3 people, home-to-home, street-to-street. He went on covering the entire area in his medieval looking transport system – an old battered motorcar.

Pappu Ram told, "Once I went to a locality where there were a large number of business men. Some saw me for a while, while others shut the door on my face. Some teens made fun of me, while a rare gentleman gave a patient ear. The rare moments of attention I got, egged me to go on, and on."

"My wife supported me reluctantly, she had cajoled me not to contest for elections. She used to sing the same tune every time – Pappu darling, you will loose, you don't stand a chance"

"I remember the speech I made in a dirty neighborhood. The residents booed me, but there was an old gentleman who struck a conversation with me, he appeared to be in his 70's."

"The jeers of the residents 'Who are you'? 'Don't you have any better work'? 'Village bum, he must be mad'? 'Clean & green – Nonsense, he must be nuts. The one which really put me off was 'Can't you mind your own business, I heard you are an employee of a software company, why can't you just sit and do some coding, what the hell are you trying to prove?'"



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“What the hell are you trying to prove? - These words gave me a smile, and I moved ahead”

The man who had crossed 7 decades spoke in a heavy tone “My son, what is your idea, I feel bad that you have to hear to all this nonsense. Yet, you smile and keep doing your work”

Pappu “Dada what is your name, thank you for enquiring about me”

Old man “Subba Rao is my name, I am in this locality from the day I was born, nothing can change it, nor the people, nor the mentality. We need another *Mahatma* to change this plight of ours”

Pappu “Sir, if everybody just sits and waits for the Mahatma, will he come and wake us up. If everyone is seeing up at angels for a solution, who will see the filth below”

Subba Rao “What else can we do? You tell me, you seem to be an educated man with a little common sense. How would you change this mob, the politicians are corrupt, the law is not strong, there is no discipline, there is no civic sense, crime rate is high, what else can we do?”

Pappu “If everyone sings the same tone what will happen to this world Subba Rao”, As he uttered these words, Pappu got up from the chair, and moved ahead with his troupe of 3 friends to the next lane.

Subba Rao observed Pappu, he labeled him as calm, peaceful, but he saw that this young man had a mission, he was not hassled by the world, and he was on a mission. He had made up his mind to contest for the elections, come what may.

Pappu moved ahead to the next rally, the next door, and another street for his next appeal. Pappu’s conviction increased and his mission grew. The judgment day was the weekend; it was a big day for Pappu “The election result”. All the parties assembled in front of the main counting hall, with their mammoth strength of followers. Pappu stood stoic with his wife and two supporters with his flag fluttering high.

The results were announced, and Pappu had gathered 307 votes out of a million votes. Nobody knew Pappu was a candidate neither did anyone bother to speak to him. His wife saw him & fondly recollected the work they had put in for the past 10 months, and told “I told you that you will lose, see the result”

Pappu replied, “I won, I did not lose” and walked majestically towards his medieval car.

Pappu had won. He had stood up to make a point to the world. He was amongst the people who did not sit and complain, he was not amongst the masses who brooded that nothing changed, politics is bad, world is heading towards an apocalypse. Indeed, Pappu had won, he had stood up and made an attempt. That was victory enough over the million people in the mass that just booed and commented. There are very few people who stand up and act, the vast majority sits and laments. Sarcasm, negative comments, pointing fingers, their fate, helpless are the words in the dictionary of many people, how many can ACT. Get up and act, if not at least do not comment.



We are losing the "jewel of the earth," just as we are beginning to appreciate its true value. Take a journey through the beautiful and untamed world of the Rainforest.

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Just go back to your desk and see if you could get affirmative to at least 50% of the below questions. If you have acted, give a pat on your back, if not read these again and once more.

- Do you know the telephone number of the local corporator or minister or counselor to raise a complaint?
- Have you written a letter to the concerned authorities on the plight of the road?
- When there is a persistent power cut, have you made an attempt to speak to the electricity department?

- When the water is dirty, have you moved towards drinking mineral water or have you raised an objection?
- When a tree is being felled have you stood ground?
- When there is a fight in the street, have you picked up the telephone line and called the local police?
- If you had an idea for improvement of your country, have you written to the states man?
- When is the last time you have visited the website of a social department or a government department to know your rights and duties?

- Can you list the fundamental rights and duties of the constitution or the charter of your country?
- Do you know the country head has an email id, which you could write to?

Yes, Pappu lost the elections, but he won. How long can we compliant, can we pick up a pen, a call, and a visit to an office or stand the ground. Can we raise a finger if not a revolution? If we do not raise a finger, neither do we have the right to brood "nothing works".

Can the minority become the majority, can we act.



The environment, after all, is where we all meet, where we all where we all have a mutual interest. It is one thing that all of us share. It is not only a mirror of ourselves, but a focusing lens on what we can become.

Environment should be put in the category of our national security. Defense of our resources is just as important as defense abroad. Otherwise what is there to defend?

## **CONTACT US:**

### **HEAD OFFICE:**

Unit Nos. 405 – 408, Hind Rajasthan Building,  
97, Dadasaheb Phalke Road, Dadar (East),  
Mumbai – 400 014. Maharashtra. India

Tel. : 022-4077 4600 (10 Lines)  
Fax. : 022-4077 4606  
Email : jayesh@jsandco.in  
Web : www.jsandco.in / www.batgach.com

### **BRANCH OFFICES:**

#### **Vashi Office**

211-212,  
'B' Wing, Big Splash Bldg.,  
Sector – 17,  
Vashi, Navi Mumbai – 400 705.  
Maharashtra. India.

Tel. : 022-27802328 / 40132071.  
Fax No. : 022-40132072

#### **Kanjurmarg Office**

1 – B, Hanuman Silk Mill Compound,  
Opp. Huma Adlabs, L. B. S. Marg,  
Kanjurmarg – (West)  
Mumbai – 400 078  
Maharashtra. India.

Tel. : 022-25787171 / 25785151