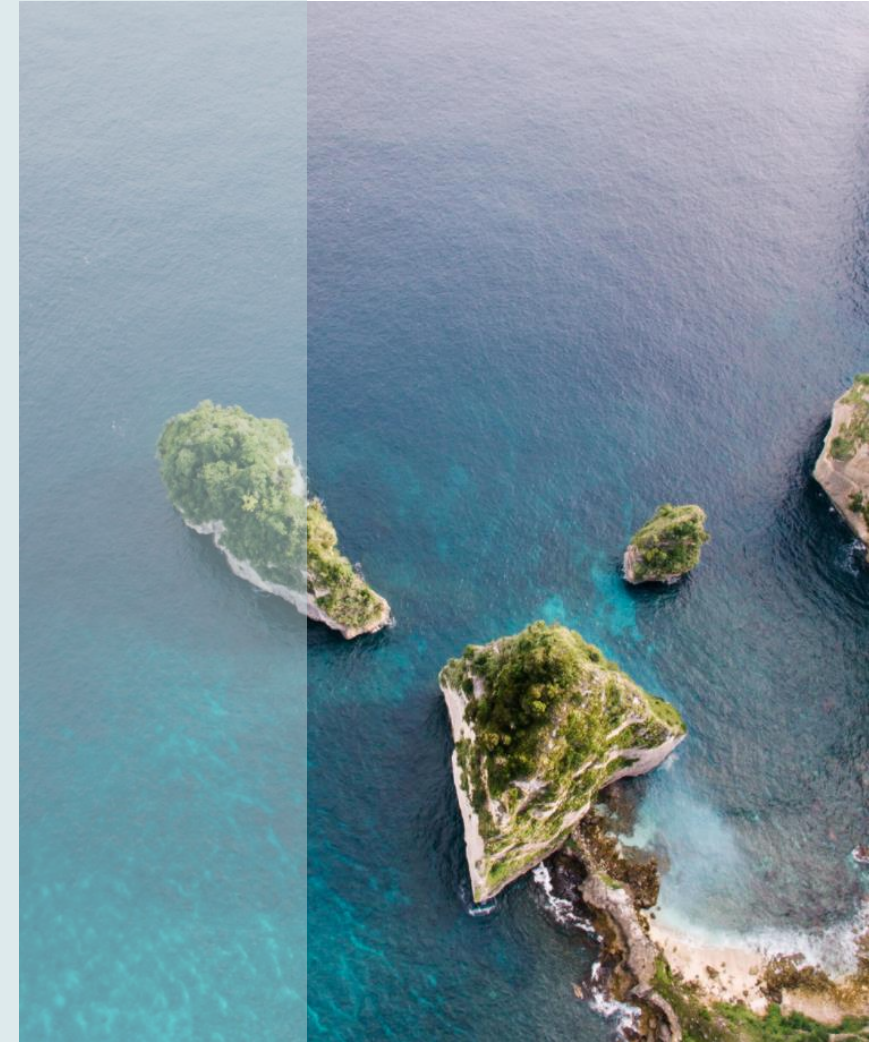


ICAI : WIRC WOW SERIES

ROLE OF CA IN ESG

By Priyanka Pothana

MD and CEO – GC Advisory



CONTENT

- What is ESG
- Standards and Frameworks
- Role : Advisory and Assurance



ESG

WHAT IS ESG ?

Environment

Social

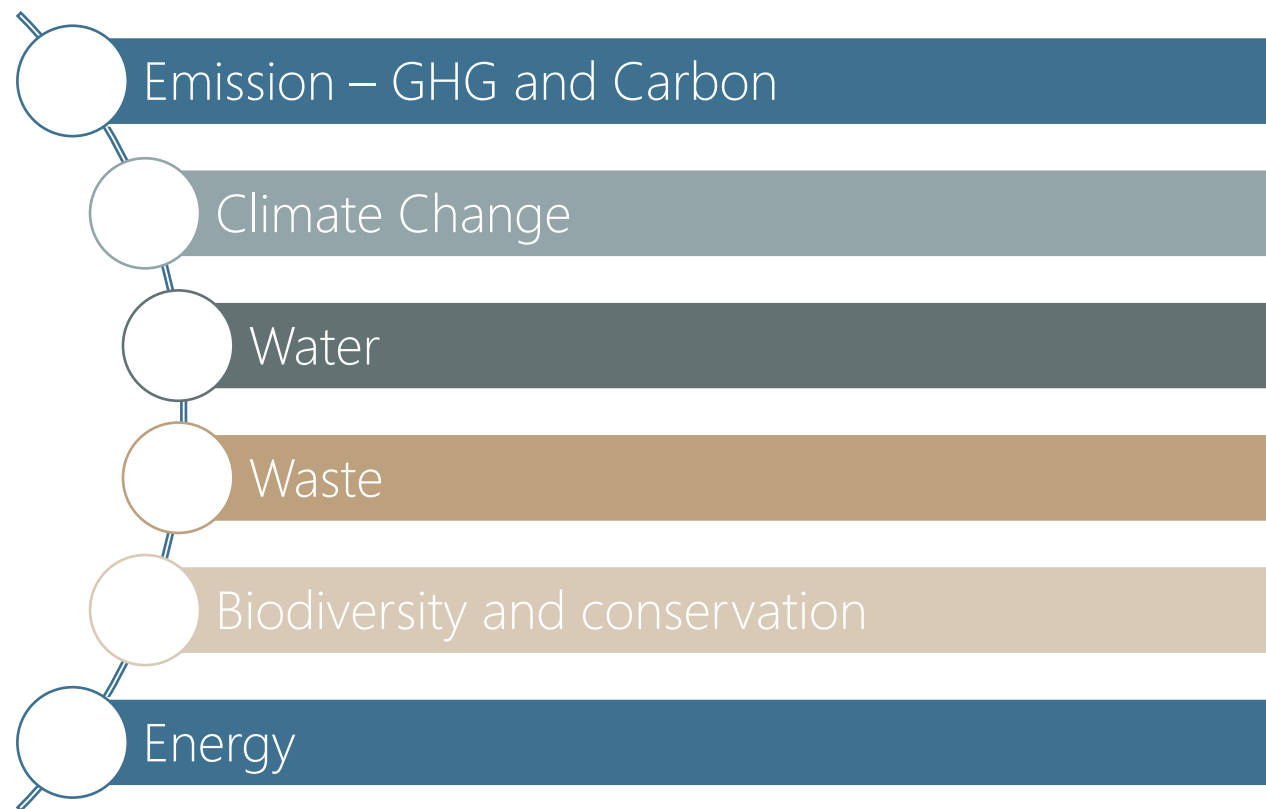
Governance

ESG stands for Environmental, Social, and Governance, and it represents the three main pillars in ESG frameworks. These pillars encompass various non-financial factors that are considered important for evaluating a company's sustainability and ethical impact.

The goal of ESG is to capture all the non-financial risks and opportunities inherent to a company's day to day activities.

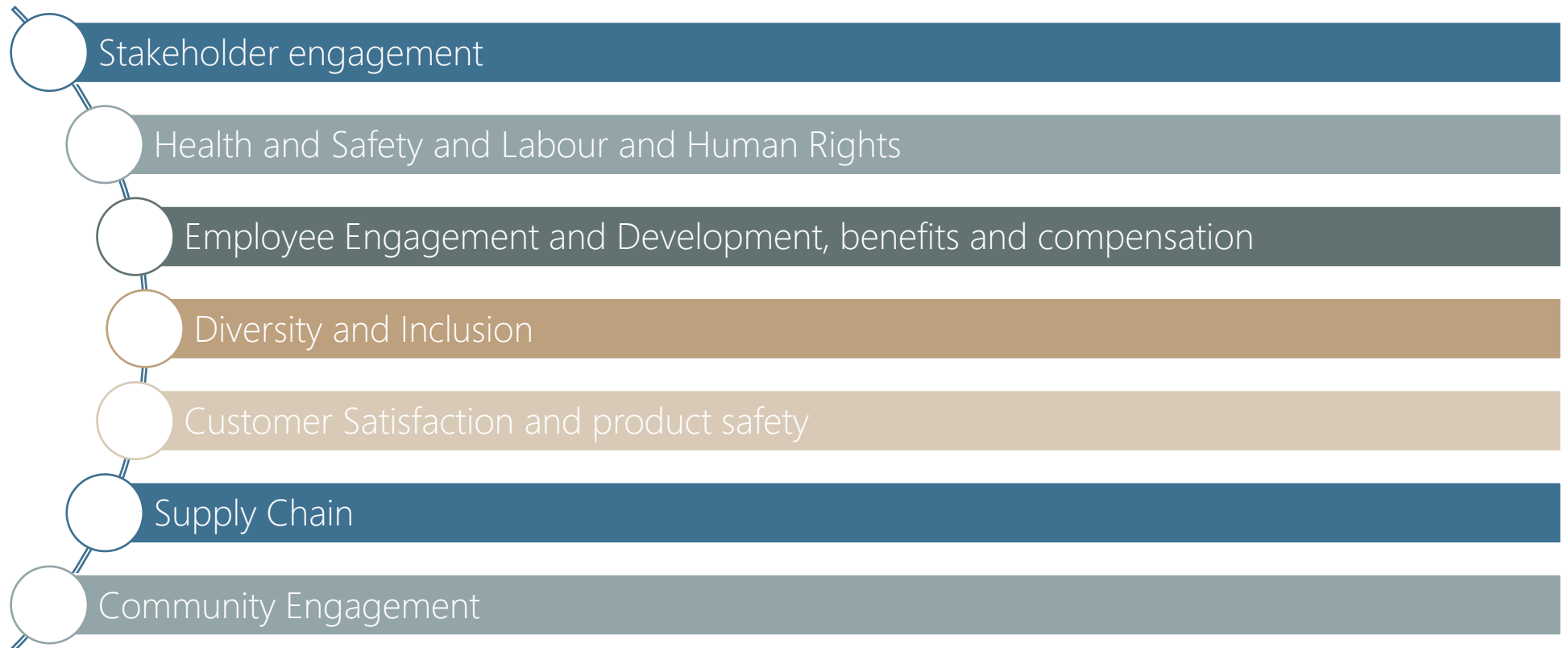
ENVIRONMENT

Environment factors, as part of the ESG framework, encompass a range of aspects related to a company's impact on the natural environment and its efforts to promote sustainability. These factors evaluate how a company's activities affect the ecosystem, climate change, resource usage, and other environmental considerations.



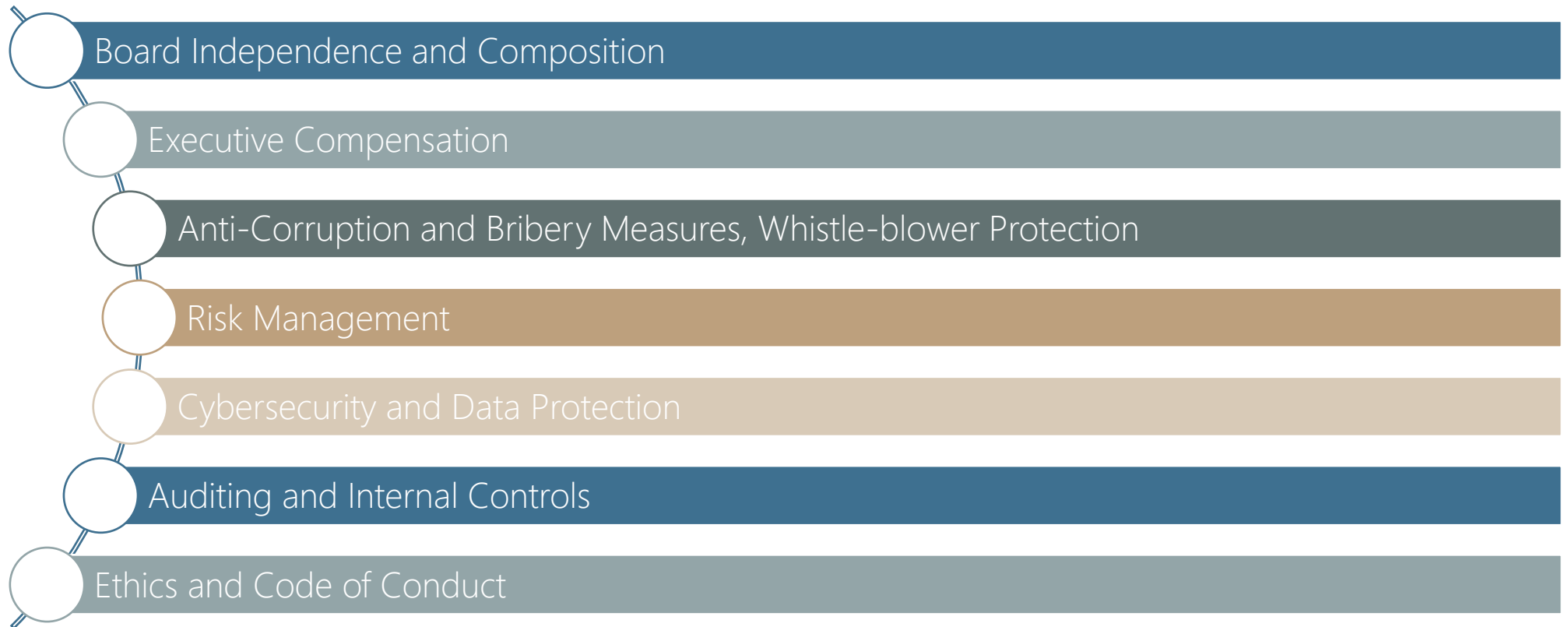
SOCIAL

Social aspects in the ESG framework focus on a company's impact on its employees, customers, suppliers, communities, and other stakeholders. These factors assess how a company manages its relationships, treats its workforce, supports its communities, and contributes to social well-being.

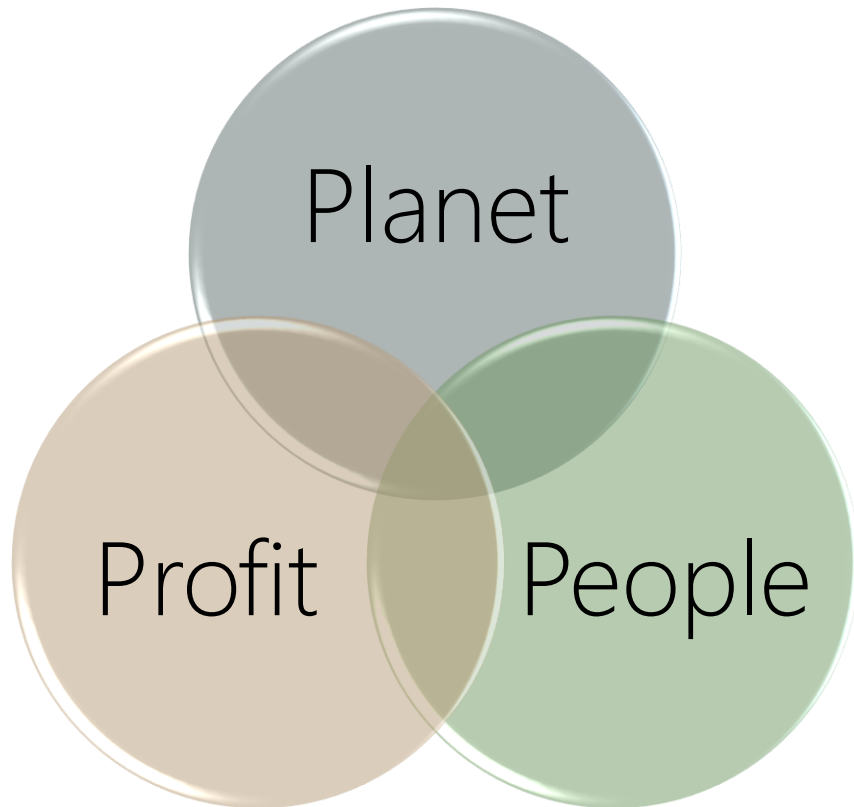


GOVERNANCE

Governance aspects in the ESG framework focus on evaluating the structure, processes, and policies that guide a company's decision-making, oversight, and accountability. It assesses how a company is governed and whether it adheres to principles of transparency, accountability, and ethical conduct.

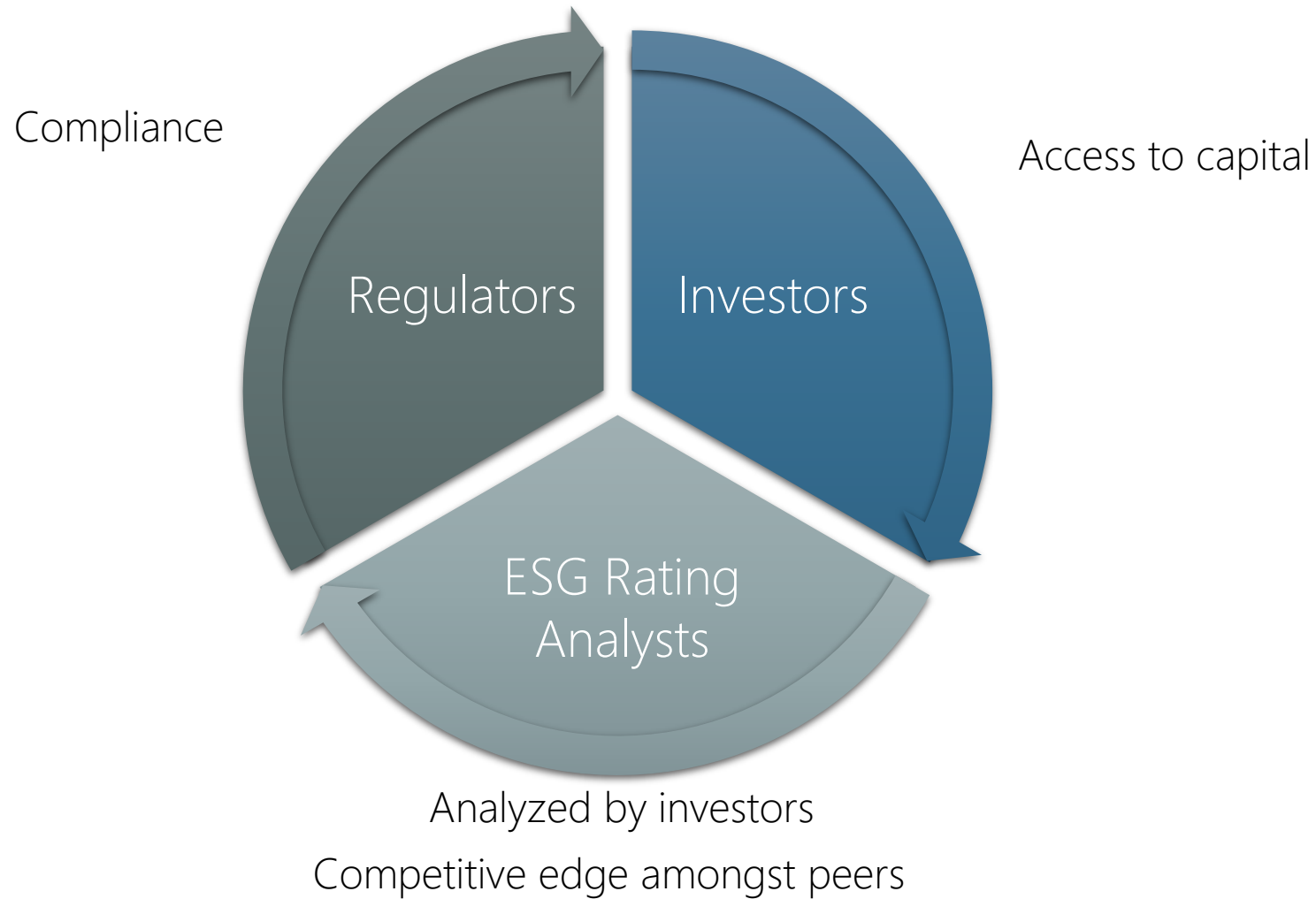


SUSTAINABILITY



Sustainability involves meeting current needs without compromising future generations. Its pillars are environmental protection (planet), social equity (people), and economic viability (profit). Balancing these aspects ensures long-term well-being by conserving resources, promoting fairness, and fostering lasting prosperity

WHY SHOULD A COMPANY DISCLOSE ESG INFORMATION



CREATING ACCOUNTABILITY: WHY CHARTERED ACCOUNTANTS ARE INSTRUMENTAL TO ESG SUCCESS

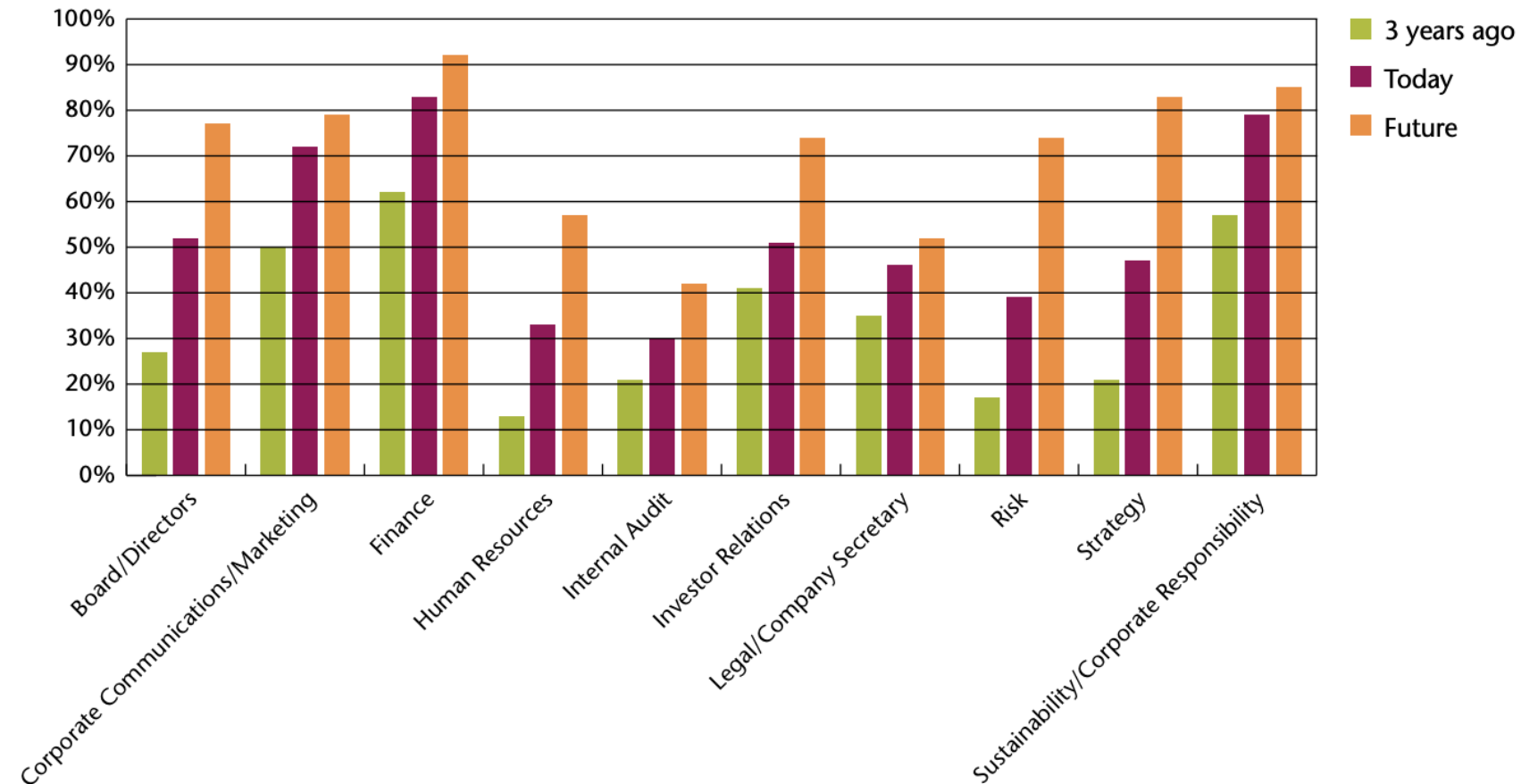
- Given the infancy of ESG auditing, chartered accountants can help bring much-needed clarity to investors, employees, customers and other interested parties.
- As governments and businesses race to decarbonise the global economy, the environmental, social and governance (ESG) movement is gathering pace.
- The topic has catapulted to the top of boardroom agendas, especially as major investors from Europe and the US look to direct their investments towards more environmentally sustainable companies and activities.

To succeed, ESG requires accurate and transparent reporting, which is where chartered accountants have an important role to play.

GROWING IMPORTANCE OF SUSTAINABILITY FUNCTION

How is team involvement changing over time?

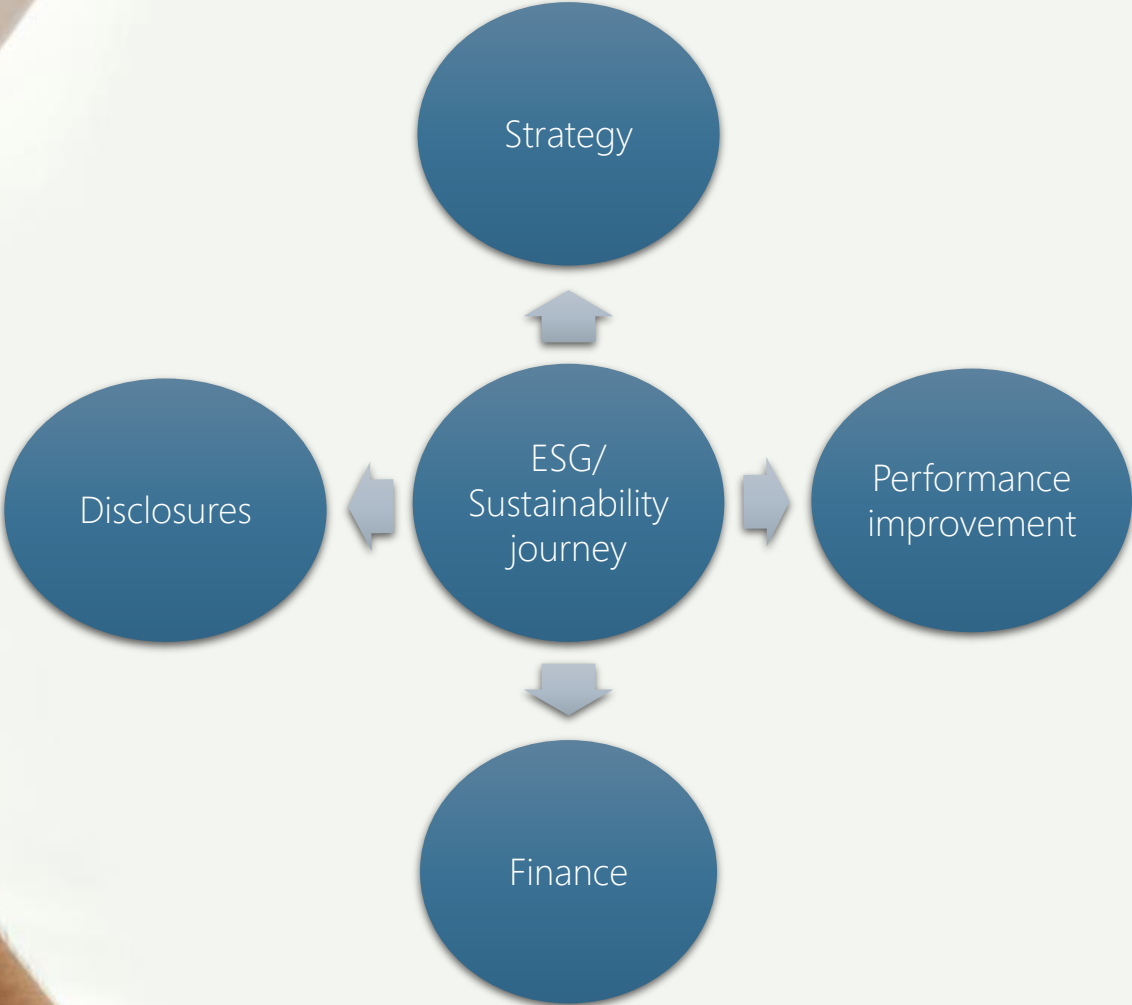
The chart below shows which key functions are involved and how this is predicted to change over the next three years.



GLOBAL EXPECTATIONS

- Prescriptive beyond frameworks and data reporting
- Meaningful disclosures on climate change
- Clarity on future ESG risks and opportunities
- A new focus on the 'S' and 'G' in ESG
- An emphasis on materiality and meaningful assessment
- Management fluency in ESG matters
- Transparency, consistency and assurance

DRIVERS FOR ACTION





MECHANISM FOR REPORTING ENTITY : STANDARDS AND FRAMEWORKS, ESG RATINGS

WHERE THE MOMENTUM BEGAN



INTERNATIONAL STANDARDS AND FRAMEWORKS

Particulars	Type	Themes	Number of Participants	Required for	Stakeholder audience
SEBI – Business Responsibility And Sustainability Report	Sustainability	Environment, Social and governance	1000	Listed companies in India	Regulatory
EU CSRD (ESRS): Eu Sustainability Reporting Standards	Sustainability	Sustainability and Environmental Reporting	50,000+	EU companies with 500+ employees and/or that are publicly traded	Regulators and other EU stakeholders
UNFSS: United Nations Forum On Sustainability Standards	Sustainability	ESG & Sustainability Reporting	500	Best for All industries	National and International bodies
IIRC: International Integrated Reporting Council	Integrated Sustainability	Finance, ESG, Sustainability	Approx. 5000	Number of Participants: Best for Investors	Regulatory bodies, Accountancy Firms

INTERNATIONAL STANDARDS AND FRAMEWORKS

Particulars	Type	Themes	Number of Participants	Required for	Stakeholder audience
TCFD: Task Force On Climate-related Financial Disclosures	Sustainability	ESG & Climate Financial Risk	~2,600+ supporting organizations	Best for Large Companies	Investors
ISSB (IFRS) International Sustainability Standard Board	Sustainability	General Sustainability Accounting, Risks & Opportunities	TBD	Best for Medium-to-Large Companies	Investors, CFOs, and Finance
CDP – Carbon Disclosure Project	Sustainability	Climate, Supply Chain, Forest, Water	9,600	Best for Medium-to-Large Companies	Investors, Supply Chain

INTERNATIONAL STANDARDS AND FRAMEWORKS

Particulars	Type	Themes	Number of Participants	Required for	Stakeholder audience
B CORP	Sustainability	Social Impact, Sustainability, & ESG	>4,000	Best for Small-to-Medium Companies	All
GRI : Global Reporting Initiative	Sustainability	General	~10,000	Best for Any Type of Organization	All
SASB (VALUE REPORTING FOUNDATION)	Sustainability	ESG Financial Risk	~800	Best for Large Companies	Investors
ISO 14001: ISO Guidance On Social Responsibility	Sustainability	ESG & Environmental Management Systems	450,000+	Best for Small and Large Companies	Investors, Regulators,

ESG RATINGS

DJSI

MSCI

FTSE4GOOD

SUSTAINANALYTICS

CSR HUB

MECHANISM FOR ASSURANCE PROVIDER

GLOBAL STANDARDS FOR ASSURANCE

- International Standard On Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information
- International Standard On Assurance Engagements (ISAE) 3410, Assurance Engagements On Greenhouse Gas Statements
- International Standard On Sustainability Assurance 5000
- AA1000 Assurance Standard (AA1000AS v3)
- ISO Standards 14000 series

INDIAN STANDARDS FOR ASSURANCE

- Standard On Sustainability Assurance Engagements (SSAE) 3000: Assurance Engagements On Sustainability Information
- Standard On Assurance Engagements (SAE) 3410: Assurance Engagements On Greenhouse Gas Statements
- Sustainability Reporting Maturity Model (SRMM)- Version 1.0
- Sustainability Reporting Standard Board (SRSB) Of ICAI has issued Social Audit Standards (SAS) from SAS 100 To SS 1600

TYPES OF ASSURANCE

Limited
Assurance

Reasonable
Assurance

LIMITED ASSURANCE

Limited assurance is the baseline level of assurance, wherein the independent auditor obtains “sufficient and appropriate evidence,” limiting assurance to specific aspects of the sustainability report/GHG Footprint or non – financial data.

To that end, the assurer may

- interview management,
- review analytical procedures, and
- evaluate internal controls for data collection.

REASONABLE ASSURANCE

Reasonable assurance is the highest level of assurance currently since absolute assurance is impossible.


Essentially, site visits are the key differentiator. With this type of audit, the assurer will provide more evidence to demonstrate that the sustainability report/ GHG Report is free of material misstatement.

This may include:

- Control testing
- Assessing then responding to risks
- Evidence gathering
- Data verification
- Evaluation of assumptions and methods used to calculate emissions

ROLES OF A CA IN ESG

ROLES OF A CA IN ESG : PRACTICE



ADVISORY
ROLE

ASSURANCE
PROVIDER

ROLES OF A CA IN ESG : CORPORATE



DISCLOSURES AND REPORTS

Particulars	Advisory Role	Assurance Role
<p>Business Responsibility and Sustainability Report</p> <ul style="list-style-type: none"> • Mandatory for 1000 listed companies as of 31 March 23 • Disclosure • Divided into Three Sections and Nine Principles • Essential and Leadership indicators 	<ul style="list-style-type: none"> • Limited role • Support in preparation of report 	<ul style="list-style-type: none"> ✓ BRSR Core indicators to be audited – Top 150 listed entities
<p>Sustainability Report and Integrated Report</p> <ul style="list-style-type: none"> • Disclosure of ESG performance of a Company • Various standards and frameworks can be used 	<ul style="list-style-type: none"> • Limited role • Support in preparation of report 	<ul style="list-style-type: none"> • Assurance of Sustainability report and Integrated Report

DISCLOSURES AND REPORTS

Particulars	Advisory Role	Assurance Role
<ul style="list-style-type: none">• TCFD Disclosures<ul style="list-style-type: none">✓ Disclosure on Governance, Strategy ,Risk Management and Targets and Metrics✓ Climate Risk assessment<ul style="list-style-type: none">○ Physical Risk○ Financial Risk	Assessment of how the identified risks can impact Profit, Cost, Revenue, Assets and Liabilities	Not Mandatory Assurance of TCFD

GREEN BONDS / GREEN DEBT SECURITIES

Particulars	Advisory Role	Assurance Role
<p>GDS debt securities being in the nature of 'use of proceeds' bonds</p> <ul style="list-style-type: none"> ○ climate change adaptation ○ circular economy ○ Water management ○ Solar projects ○ Transition Bonds 	<p>Advisory role Support in issuance of bonds etc.</p>	<p>Independent Third-Party Verifier is required for Issuance and monitoring</p> <ul style="list-style-type: none"> ✓ Pre-issue support – for reviewing/certifying the processes including project evaluation and selection criteria, project categories eligible for financing by GDS. ✓ Post-issue support – Post-issue management of the use of proceeds from GDS and verification of the internal tracking and impact reporting

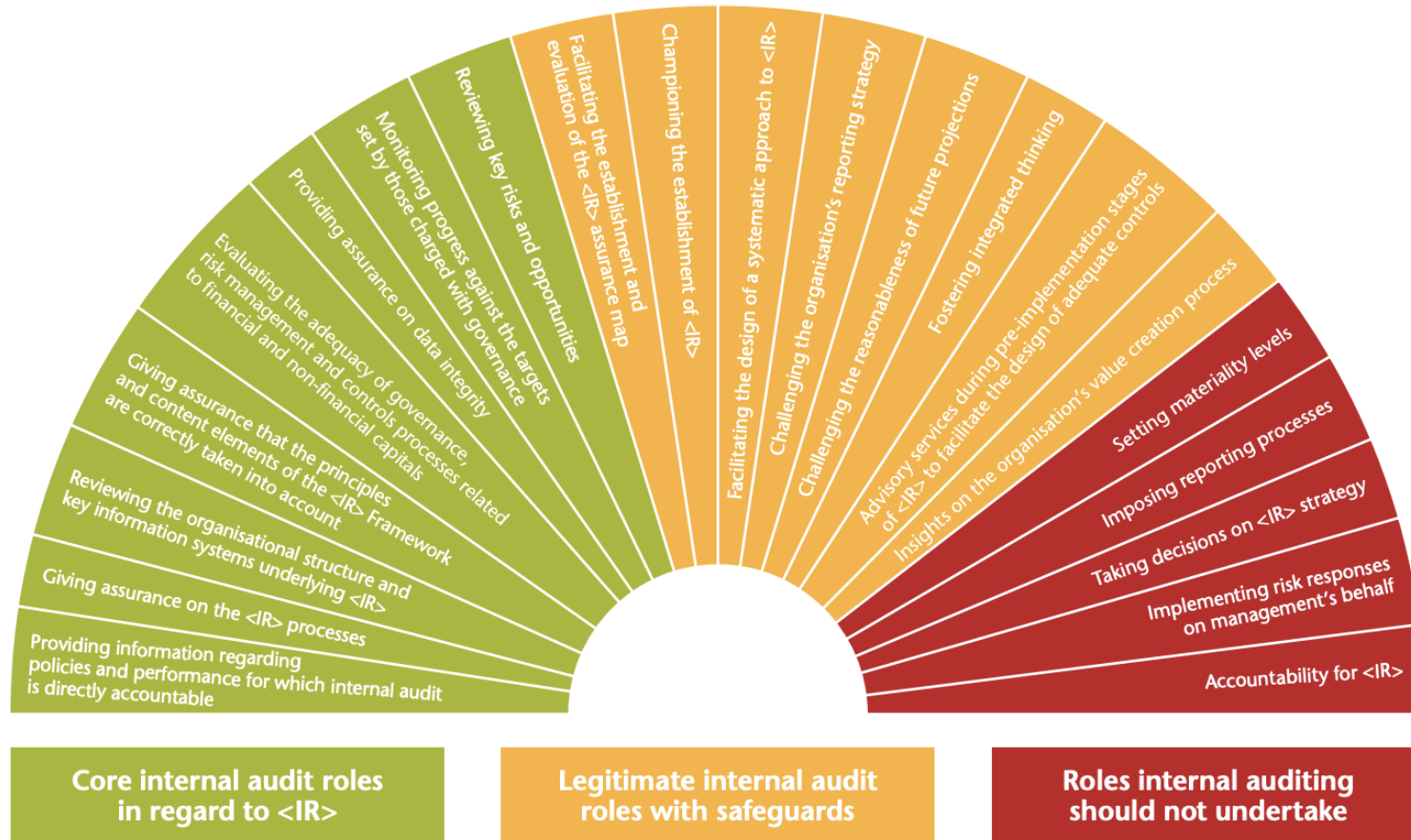
SOCIAL AUDITS

Particulars	Advisory Role	Assurance Role
<p>A social audit is a process of evaluating an organization's social and environmental impact.</p> <p>Social audits are conducted on a range of areas, including policies, laws, and the functioning of public agencies.</p>	<p>None</p>	<p>"Social Auditor" means an individual registered with a self-regulatory organization under the Institute of Chartered Accountants of India or such other agency, as may be specified by the Board, who has qualified a certification program conducted by National Institute of Securities Market and holds a valid certificate; (as per Gazette Notification of SEBI dated 25th July, 2022)</p> <p>Sustainability Reporting Standard Board (SRSB) of ICAI has issued the following Social Audit Standards (SAS)</p>

GHG CERTIFICATIONS AND ASSURANCE

Particulars	Advisory Role	Assurance Role
Green House Gases certifications	Limited – requires technical expertise	<ul style="list-style-type: none">- Cross Border Adjustment mechanism by European Union- Eco Vadis Assessment- DJSI Assessment- CDP assessment- Investor needs- GHG projects

INTERNAL AUDIT OF NON –FINANCIAL INFORMATION



ASSURANCE ROLE

- Water Risk Assessment
- Waste Management
- Environmental law compliance
- Energy audits

SOCIAL RETURN ON INVESTMENT

- Social return on investment (SROI) is a method of accounting for the social, economic, and environmental value created by a company.
- Companies issue financial statements that show investors the revenue, sales, net profits, debts, and other key metrics, but SROI is not a factor.
- The purpose of issuing SROI is for corporations to be able to look at their social impact in financial terms.
- The factors that go into calculating the SROI are the social impact value and the initial investment amount.

ADVISORY ROLE

- ESG Strategy development
- Policies and procedures
- Transaction advisory in Renewable energy projects
- Due diligence

WHY A CA CAN BE INSTRUMENTAL IN STEERING ESG

- ESG is a form of data collection
- Good Understanding to Social and Governance aspects
- Rigor in CA curriculum towards assurance
- ESG is rather it is a quantifiable measure of sustainability that enables businesses to enact realistic change and provide transparency to all its stakeholders.
- Chartered accountants can help bring much-needed clarity to investors, employees, customers and other interested parties
- The cornerstones of ESG are transparency and accountability; taking them on is a responsibility that chartered accountants are best placed to bear.
- This will shape stakeholder decision-making and will be fundamental in championing a sustainable future



THANK YOU

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