Environmental Audit

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- General Concepts of EA as Defined for SAIs

- Steps of Conducting an EA

- EA; Generally Conceived

First Part

General Concepts of EA

As Defined for SAIs

What is your idea?

- ***As an auditor***

- ***As an environmental auditor***

What is Environmental Audit?

- A highly skill-oriented task
- Specific relation with other kinds of Audit
- Calls for:
  - high level of professional audit skills
  - a deep understanding of environmental issues

Definition

INTOSAI Definition

- A convenient label generally used to describe a plethora of activities such as:
  - management audits
  - product certification
  - governmental control measures
  - and many other activities …

Definition (continued)

- **World Bank Definition**
- A methodical examination of environmental information about an organization, a facility or a site, to verify whether, or to what extent, they conform to specified audit criteria

EA & Audit in General

- Not a basic difference from the audit approach practiced by the SAI
- Could encompass:
  - Financial audit
  - Compliance audit
  - Performance audit

Objectives

- Objectives of each audit will depend on the type of the audit carried out
- **General objective**

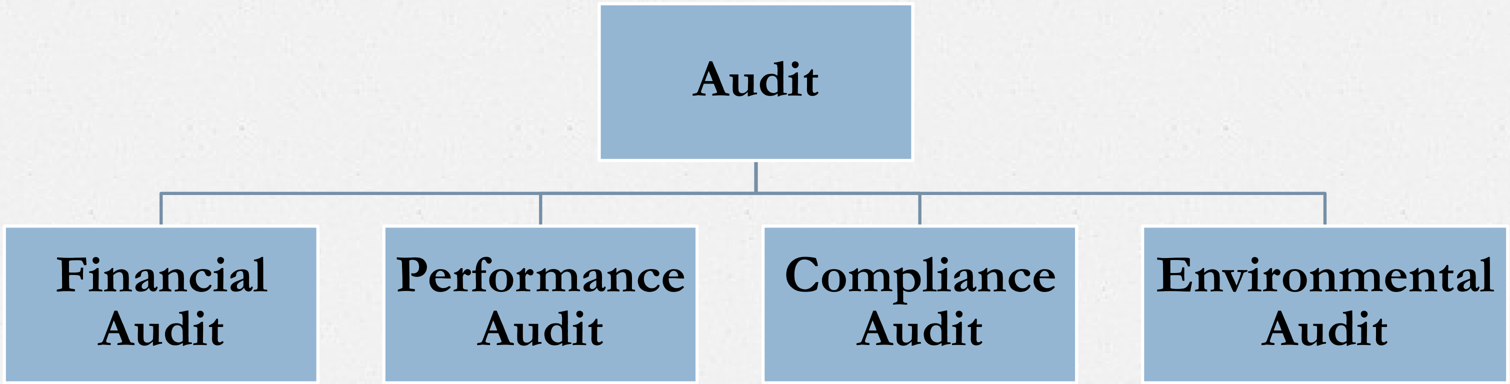
  To respond to the expectations of the citizens by:
  - Providing verification of the government agencies’ information
  - Evaluating their impacts on the environment

Three Types of Audit

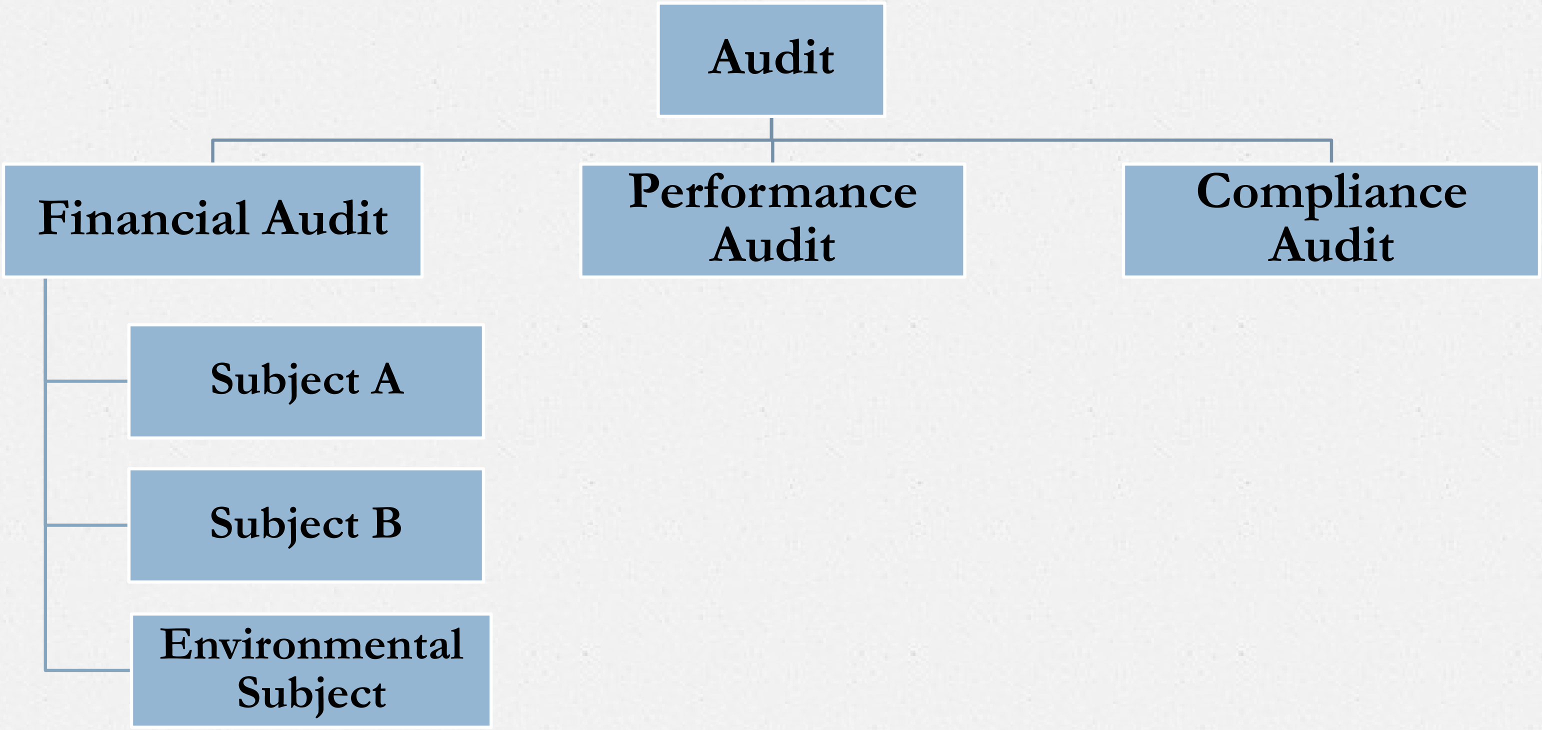
- Three well-known types of audit:
  - Financial audit
  - Compliance audit
  - Performance audit

What is the relation of EA with each of them?

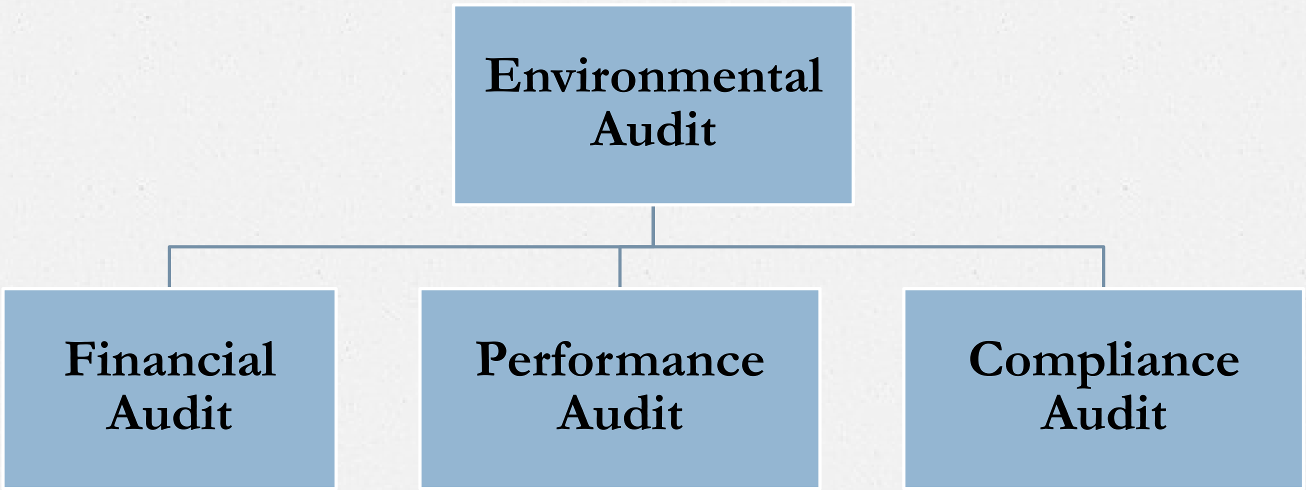
Is EA a Main kind of Audit?



Is the Difference in Subject?



Include Other Main Types?



Environment in Compliance Audit

- Objective of compliance audit:

  to provide an assurance that governmental activities are conducted in accordance with *relevant* laws, regulations, standards and policies

- We have also *relevant environmental* laws, regulations, standards and policies

- Result   EA can be considered based on compliance audit

Environment in Financial Audit

- Objective of financial audit:

  to enable the auditor to express an opinion on whether the financial statements are prepared in all *material respects* in accordance with the criteria
- *Material respects* can be directly linked to:
  - environmental costs
  - environmental obligations
  - environmental impacts
  - environmental outcomes
- Result considering environmental matters as part of financial audit

EA from a Financial Perspective

- Focus on items affected by environmental matters
- Whether public funds were spent efficiently and for their intended purposes
- Issues meriting special attention:
  - Initiatives to prevent, abate, or remedy damage to environment
  - Conservation of renewable and non-renewable resources
  - Consequences of violating environmental laws

EA from Compliance Perspective

- **In governmental organizations responsible for environmental matters:**
  - to verify if they are committed to their obligations and fulfill their role
- **In other organizations:**
  - to verify if their activities are conducted according to relevant environment laws, standards and policies
  - both at the national and international levels

Environment in Performance Audit

- Objectives of performance audit are manifold
- **Typically:** ensuring that indicators of performance fairly reflect the performance of the reported entity
- Environmental related performance
- Verifying if environmental programs are conducted in an *economical, efficient* and *effective* manner

Main Areas of Performance Audit of Environmental Issues

- Audit of government's monitoring of compliance with laws
- Audit of government's environmental programs
- Impact of other programs on environment
- Audit of Environment Management systems
- Evaluation of proposed environmental policies and programs

Environmental Performance Audit: Different Kinds of Examinations

- Whether indicators of environment-related performance fairly reflect the performance of the entity
- Whether environment programs yield value for money
- Adequacy or absence of legal and other instruments to safeguard the environment
- Strength and weakness of the government's policy framework regarding environmental issues
- Examination of selected environmental programs of the government and the organizations

Environmental Performance Audit: Different Kinds of Examinations (continued)

- Direct and indirect impacts of other governmental programs on environment
- Availability and the level of efficiency of an Environment Management System (EMS)
- Audit of environmental indicators
- Audits of programs, and policy decisions: if those activities were completed economically, efficiently and effectively

Evaluation of Policy Matters

- Analysis of government policies in EA: unavoidable
- Correctness of the information or inputs that were considered in framing the policy
- Unintended impacts of the policy
- Require the expertise and skills of outside experts or panels of specialists

Inclusion of Environmental Aspects in Regular Audits

- Organizing full scale environmental audits of all environment-related activities: not feasible
- Apparent need to include environmental audits as part of the regular audits
- Audit plans relating to all relevant activities of the SAIs should include a section regarding environmental aspects

Criteria for EA

- Identification of reasonable and enforceable criteria prior to the audit
- Whether the entity is suitably notified of the audit criteria in advance
- Two kinds of criteria:
  - **Authoritative** provides a reasonable amount of certainty
  - **Persuasive** as a guidance material and a source of persuasive thinking

Financial Audit Criteria

- Accounting standards issued by international or national bodies
- Guidance notes issued by the above agencies
- Guidance issued by INTOSAI, ASOSAI, etc.
- SAI's auditing standards and guidelines
- Judicial pronouncements relating to specific environmental issues
- Directives and notifications of regulatory bodies responsible for environment

Compliance Audit Criteria

- National environmental laws, rules and regulations
- Policy documents and strategies issued by the government
- International conventions and treaties
- Standards issued by responsible bodies
- Sanctions and permits issued by the regulatory bodies

Performance Audit Criteria

- Performance indicators prescribed by law, government policy, etc.
- Performance indicators used by similar entities
- Standards issued by empowered bodies
- Codes of professional practice and ethics issued by professional bodies
- Opinions and advices of external experts
- International and multilateral treaties and agreements

Second Part

Steps of Conducting an EA

Four Steps of EA

- **First step** Understanding the problem of environment, its impact on society, economy and environment
- **Second step** Understanding the response of the government to the problem
- **Third step** Selection of the audit topic and determining the audit priorities, and establishing the audit objectives
- **Fourth step** Designing the audit

First Two Steps: Understanding

- Understanding is based on: Knowledge & Information
- Professional knowledge of all types of audit
- A comprehensive knowledge of the environmental issues
- A comprehensive knowledge of sustainable development
- Different kinds of skill are needed

Main sources of Information

- Long term development plans
- Budget documents
- National Plan/strategy/financial policies
- Rules and regulations
- Internal audit reports of the entity
- evaluation reports by external experts
- Commitments and assurances of the entity
- Materials from civil society organizations, media, …

Third Step: Selection of Topics

- Three types of organizations:
  - with operations affecting the environment
  - with powers to make or influence environment policy
  - with powers to monitor and control the environmental actions
- Knowledge enables the audit to prioritize the topics
- Considering the holistic impact on the environment
- Constructing portfolios on all important topics
- Identification through *risk analysis, materiality* and *visibility*

Fourth Step: Designing an EA

- Collection of all required data and information
- Research on the background, status, visibility and auditabilty of the subject
- Establishing the audit scope, objectives and criteria
- Focusing on a single policy or entity or a basket of policies
- Preparing a detailed audit plan

Selection of the Team

- A mix of different professional expertise
- Adequate knowledge in all aspects of auditing
- Capability to carry out all three kinds of audits
- Knowledge of environmental issues
- Knowledge of environmental auditing

Reporting

- **Environmental Audit reports should:**
  - be complete, precise, accurate and balanced
  - include constructive and precise recommendations
  - be inspiring the managements of entities to take corrective actions

Third Part

EA; Generally Conceived

Definition

- A management tool comprising a systematic, documented, periodic and objective evaluation of performance of the organization, management system and processes designed to protect the environment with the aims of:
  - i) facilitating management control of practices which may have impact on the environment
  - ii) assessing compliance with company policies

EA & Environmental Management Systems (EMS)

Consists the following elements (depending on the standard), to:

- adopt an environmental policy
- undertake an environmental review
- set up environmental programs
- establish an environmental management system
- undertake periodic environmental audits
- prepare an environmental statement
- obtain independent verification of the environmental statement

General Advantages of EA

- Preparation of Environmental management plan
- Assessment of environmental inputs and risks
- Identifying areas of strength and weakness
- Evaluation of pollution control
- Verification of compliance with laws
- Assuring safety of plant, environment & human beings
- Enhancement of loss prevention and manpower development
- Budgeting for pollution control, waste prevention, …
- Giving credit for good environmental performance
- Minimizing the environmental problems

Advantages of EA for the Organization

- Efficient use of resources
- Improving resource conservation
- Use of valuable environmental information for decision-making about environmental impacts
- Development of new environmental strategy
- Supporting employees and managers in the field of environmental performance and practices
- Institutionalizing organization's behavior based on environmental standards

Objectives of EA

- Verifying compliance
- Identifying problems
- Formulating environmental policy
- Measuring environmental impact
- Measuring performance
- Confirming environmental management system effectiveness
- Developing the company's environmental strategy

Five Levels of EA Techniques

- Compliance auditing
- Systems auditing
- Environmental auditing
- Ecological auditing
- Sustainability auditing

Principle Areas of EA

1. Material Audit
2. Energy Audit
3. Water Audit
4. Health and Safety
5. Environmental Quality Audit
6. Waste Audit
7. Engineering
8. Compliance Audit

EA Process

- Pre-audit
- On-site audit
- Post-audit

Pre-Audit Activities

- Determining and selecting the site
- Determining the date of the audit
- Identifying audit scope
- Designing audit plan
- Establishing audit team and assigning responsibility
- Collecting the chosen working papers
- Collecting the background information
- Sending pre-audit questionnaire to auditee

On-Site Audit Activities

- Opening meeting
- Site inspection
- Develop a working understanding
- Assessing the auditee's management controls and risks associated with their failure
- Gathering audit evidence
- Communicating with the staff of the auditee
- Evaluating the audit evidence
- Exit meeting

Post-Audit activities

- Developing action plan
- Implementing action plan
- Checking and monitoring
- Reviewing action plan

Essential Steps of EA

1. Primary Familiarity
2. Primary Planning
3. Selection of Team Members
4. Audit Implementation
5. Identification of High Risk Points
6. Adjust the Audit Plan (if necessary)
7. Draft Report (to the employer)
8. Final Report

Let's Discuss It More

1. What is the relation of environmental audit with main types of audit?
2. Which kind of environmental audit is the best kind, if any?
3. How can we include environmental aspects in non-environmental audit?
4. What are the most characteristic differences of environmental audit?

THANK YOU