ESG Audit: Placing Sustainability at the Centre

This article delves into the pivotal role of ESG audits in aligning corporate operations with sustainable goals, focusing particularly on 2W & 2Es - Water, Waste, Emissions, and Energy. It examines the institutional frameworks such as SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 ('LODR Regulations'), Corporate Governance framework, the BRSR, and its alignment with global standards such as GRI, SASB, and TCFD. The article also throws light on the essential elements such as the Key Performance Parameters, Audit Tools and Data Points and the overall benefits of ESG Audits both to the Corporate and to the broader ecosystem.

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INTRODUCTION

In a world grappling with Environmental, Social, and Governance (ESG) challenges, ESG audits have become indispensable for ensuring that businesses don't merely exist for profits, but for sustainable value creation. Placing sustainability at the heart of business strategies is no longer aspirational; it is imperative and there is no better professional to shoulder this responsibility with their multidisciplinary expertise and strategic insight than a Company Secretary. This article delves into the pivotal role of ESG audits in aligning corporate operations with sustainable goals, focusing particularly on **2W & 2Es - Water, Waste, Emissions, and Energy.** It examines the institutional frameworks such as SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 ('LODR Regulations'), Corporate Governance framework, the BRSR, and its alignment with global standards such as GRI, SASB, and TCFD. The article also throws light on the essential elements such as the **Key Performance Parameters**, **Audit Tools** and **Data Points** and the overall benefits of ESG Audits both to the Corporate and to the broader ecosystem.

ESG AND SUSTAINABILITY DISCLOSURES: FROM STATUTORY DUTY TO STRATEGIC IMPERATIVE

Effective from 1st April 2014, the Companies Act, 2013 ('the Act') marked a significant step forward in embedding environmental responsibility into corporate governance. Section 166(2) introduced statutory duties for directors, one of which included the responsibility to protect the environment. Additionally, as per Schedule VII of the Act companies are encouraged to undertake CSR activities, under identified themes such as sustainability, ecological balance, and protection of flora and fauna.

As the capital markets regulator, SEBI was among the early adopters of sustainability reporting frameworks globally. Through Circular No. CIR/CFD/CMD/10/2015 dated 4th November 2015, SEBI mandated the Business Responsibility Report (BRR) for listed entities to disclose their performance across ESG (Environmental, Social, and Governance) parameters.

In a major regulatory shift, SEBI amended Regulation 34(2)(f) of the LODR Regulations via Gazette Notification No. SEBI/LAD-NRO/GN/2021/22 dated 5th May 2021, introducing a more comprehensive reporting format: the Business Responsibility and Sustainability Report (BRSR). The BRSR, accompanied by a detailed guidance note, outlines mandatory ESG-related disclosures, reinforcing the shift from voluntary to standardized and measurable sustainability reporting.

This evolution signals a paradigm shift in India's corporate landscape, where ESG is no longer peripheral but central to strategic decision-making.

GLOBAL CONTEXT: THE RISE OF ESG INTEGRATION

Globally, the adoption of the **Paris Agreement on Climate Change** and **UN Sustainable Development Goals (SDGs),** have accelerated the transition towards sustainable economies. The COVID-19 pandemic further underscored the relevance of ESG considerations, driving investor interest in resilient, responsible, and future-ready companies.

The **UK Stewardship Code, 2020** (Principle 7) emphasizes the integration of stewardship, investment, and ESG. In 2005, then UN Secretary-General Kofi Annan convened leading institutional investors to create the **Principles for Responsible Investment (PRI)**, a landmark framework that now guides ESG-conscious investing worldwide. The UN Six Principles are as follows:

i. Incorporate ESG issues into investment analysis and decision-making processes.

ii. Be active owners and incorporate ESG issues into ownership policies and practices.

iii. Seek appropriate disclosure on ESG issues by the entities in which they invest.

iv. Promote acceptance and implementation of the Principles within the Investment Industry.

v. Collaborate to enhance effectiveness in implementing the Principles.

Similar frameworks have emerged globally. The **Code for Responsible Investing in South Africa (CRISA)** came into effect on 1st February 2012. In 2011, **CalPERS** (California Public Employees' Retirement System) integrated ESG into its Total Fund investment strategy, aligning environmental, human, and physical capital for long-term value creation.

Today, ESG is central to stakeholder decision-making and boardroom strategy, and sustainability has emerged as the common thread tying it all together. This shift from optional sustainability to mandated ESG disclosures has been catalyzed by several regulatory changes, corporate failures, and global movements. It is not just about compliance anymore; it is about resilience, trust, and long-term growth.

THE KEY-PERFORMANCE INDICATORS INCLUDE

1) **Environment** - Energy usage and efficiency, greenhouse gas emissions, water consumption and conservation, ecosystem and circularity - Innovation in green products and services.

2) **Social** – Employee welfare and inclusivity, poverty alleviation, community development and responsible supply chain management.

3) **Governance** - Codes of conduct and ethical principles, accountability, transparency and disclosure and Implementation – quality and consistency.

KEY ESG FOCUS: WATER, WASTE, EMISSIONS AND ENERGY (2W & 2ES)

At the heart of ESG performance lies, an effective monitoring, management, and disclosure of four critical environmentally sensitive things - **Water, Waste, Emissions, and Energy** (*collectively referred to as the* '***2W & 2Es'***). These focus areas form the foundation of sustainability reporting and are central to risk management, resource efficiency, and long-term value creation.

The SEBI Circular dated 12th July 2023 introduced the BRSR Core (Business Responsibility and Sustainability Reporting Core) Framework, a focused sub-set of BRSR. The BRSR Core consists of Key Performance Indicators (KPIs) / metrics aligned with the 9 (nine) ESG Attributes, also known as KPIs.

However, in order to assess and determine the level of disclosures made by listed entities, with respect to environmentally sensitive things. It is thought fit to consider the following four ESG attributes alone:

1) **Green House Gas (Emissions) Footprint:** Measured in accordance with GHG protocol as per Corporate Accounting and Reporting Standard. ESG audits capture: (a) Scope 1 (direct), Scope 2 (indirect), and Scope 3 (value chain) emissions; (b) Fuel usage patterns and GHG intensities; and (c) Mitigation strategies and carbon offsets.

2) **Water Footprint:** On water footprint, BRSR Core requires the entity to disclose Total Water Consumption in Mn Lt or KL. Water consumed is the water that is no longer available for use by the ecosystem or local community.

3) **Energy Footprint:** Shall be the total energy consumed including non-renewable fuel consumed + renewable fuel consumed + purchased electricity, heating, cooling, steam + self- generated electricity, heating, cooling, and steaming. Energy consumed from renewable sources / total energy consumed.

4) **Waste Management:** Total waste generated may be calculated in Kg / MT and shall include the following:

   a) Plastic waste
   b) E-waste
   c) Bio-medical Waste
   d) Construction and demolition waste
   e) Battery waste
   f) Radioactive waste
   g) Other Hazardous and non-hazardous waste

These disclosures not only fulfill regulatory expectations but also help organizations proactively address environmental risks, enhance resource efficiency, and align with global sustainability goals. By focusing on the **2W & 2Es**, ESG audits offer a practical, data-driven approach to measuring sustainability performance and ensuring accountability.

TYPES OF ESG AUDIT

ESG audits can be broadly categorized into two types based on their objectives, scope, and governance structure:

1. **Regulatory Compliance ESG Audits** are conducted to ensure compliance with legal and regulatory requirements. In India, the most significant regulatory development is that BRSR is mandated by SEBI for the top 1,000 listed companies. This audit ensures that companies adhere to - SEBI's ESG disclosure norms, The National Guidelines on Responsible Business Conduct (NGRBC), Sector-specific environmental norms (e.g., CPCB, MoEFCC Regulations) and Labour Laws and Governance Codes applicable under Indian corporate law. Regulatory audits are typically formal, periodic, and may be subject to external assurance.

2. **Operational-Related ESG Audits** are internally or voluntarily initiated audits aimed at improving the day-to-day sustainability performance of an organization. They focus on energy and resource efficiency, supply chain ESG risks, workforce well-being and workplace safety, business ethics and culture and ESG KPIs integrated into operational strategy.

TOOLS OF ESG AUDIT

Effective ESG audits depend on a combination of global frameworks, digital platforms, regulatory mandates, and verified data sources. Together, these tools help companies ensure transparency, compliance, and continuous improvement in their sustainability performance.

1. **Global Frameworks Adopted in ESG Audits**

   Several international ESG frameworks are widely used by Indian companies to align their disclosures with global best practices:

   (a) **Global Reporting Initiative (GRI):** Provides a comprehensive framework for sustainability reporting. Many Indian companies align their ESG disclosures with GRI standards to ensure stakeholder expectations and global benchmarks.

   (b) **Sustainability Accounting Standards Board (SASB):** Focuses on industry--specific ESG metrics, especially for Indian firms listed on global exchanges. SASB enables targeted ESG audits tailored to sectoral nuances.

   (c) **Task Force on Climate-related Financial Disclosures (TCFD):** TCFD Focuses on climate-related risks and opportunities. TCFD-aligned audits are gaining traction due to increasing climate risk scrutiny.

2. **India-Specific ESG Mandates and Frameworks**

   India's ESG landscape is also shaped by Regulatory mandates and governance codes:

   (a) **Business Responsibility and Sustainability Report (BRSR):** Introduced by SEBI (Securities and Exchange Board of India), BRSR has become mandatory for the top 1,000 listed companies from FY2022–23. It provides a standardized format for ESG disclosures aligned with global best practices.

   (b) **National Guidelines on Responsible Business Conduct (NGRBC):** Developed by the Ministry of Corporate Affairs ('MCA'), the NGRBC forms the foundation of BRSR. It helps Companies assess their ESG performance across nine principles.

3. **Digital Platforms and ESG Dashboards**

   Modern ESG audit tools integrate real-time data visualization and analytics, helping leadership make informed, data-driven decisions.

   (a) Global ESG Platforms like Enablon, Diligent ESG, EcoVadis, and Refinitiv ESG: Offer real-time monitoring of ESG KPIs, carbon footprint tracking, and supply chain sustainability metrics. Dashboards consolidate key ESG metrics and flag areas of risk or non-compliance.

   (b) Indian platforms like cKinetics and Think360.ai: Offer India-specific ESG analytics, including compliance with BRSR and sectoral benchmarking. These platforms often integrate with existing ERP systems, providing seamless access to ESG data at the board level.

   (c) Integrated Reporting (IR) Tools: Tools aligned with the International Integrated Reporting Council (IIRC) framework help companies combine financial and non-financial performance into one cohesive audit report.

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ESG: ASSESSMENT ASSURANCE AND AUDITS

Different firms operate in ESG space in several ways providing assessment or assurance or audit services. Depth of an audit is characterized by the skills and tools of the firm and specific needs of the auditee. Basically, a firm of Company Secretaries or Chartered Accountants will be able to provide assessment and audit services in relation to select key parameters of ESG. Some of these firms have developed their own tools to aggregate the inputs received from several datapoints of clients duly inputted in their tool directly by their clients with supporting documents such as policies, pictures, vouchers, bills, certificates, year of purchase, extent of use, warranties, configurations and specifications, actual use and consumption data, based on which on-site and off-site verifications and assessments could be done.

Such tools apply a globally accepted converter for computing the CO_2 equivalent and provide immediate data. As a result, certain leading analysis could also be provided to clients for their Boards to adopt of a suitable strategy in improving their ESG score. These audits will typically include measuring methods, accounting, and disclosure standards too, as a result of which, ESG governance graph grows spreading a sense achievement for the key managerial persons in the management of the operations and activities of the client, while instilling a sense of confidence amongst the employees, customers, stakeholders, and investors too.

- ESG service creates a structured framework starting from creating awareness, enabling clients to identify data points, appoint data responsibility owners, train them to input data, add support documents, furnish details, documents, clarifications, and explanations, to aggregate the data for any given period, assess and optimize an organization's operational resilience and sustainability.
- It helps organizations transition from reactive compliance to proactive strategic planning. Some of the key benefits include renewed focus on replacement planning for aging equipment and transition to green energy sources.
- ESG audits help identify aging equipment (e.g., laptops, generators) that are no longer energy efficient or environmentally compliant. For instance, replacing a given number aged computer systems and laptops could be planned to phase out outdated energy inefficient systems and e-waste them or do charity to be of use to underprivileged.
- Audits provide an excellent opportunity for studying the specifications and assessing whether specified outcomes have been achieved and whether they are aligned with regulations from time to time. For instance, a vehicle with a specification to give a mileage of 23kms Per Liter of diesel gives only 16 kms on an average, then there is something radically wrong.
- It aligns machinery usage and retirement with current emission standards like Bharat Stage VI and other national/international mandates (e.g., DG Shipping rule mandating decommissioning of ships >25 years old). ESG tools can simulate long-term financial planning by incorporating cost of replacement, depreciation, disposal, and energy savings. Enables the board to visualize investment requirements and ROIs over time.

In short, ESG Audits operate even on an opportunity for achieving optimum operational performance of key physical resources while at the same time providing insights to prepare a business plan that integrates key regulatory and non-regulatory ESG strategies and take steps for infusing funds.

KEY ESG DATA SOURCES

ESG data is typically gathered from a combination of internal systems and external inputs, depending on the audit scope:

a) Environmental Data:

   i. Utility bills, smart meters, and carbon audit reports.

   ii. Water usage logs and emission monitoring systems.

   iii. Waste generation records and recycling reports.

b) Social Data:

   i. HRMS/payroll systems (e.g., for diversity, training hours, attrition).

   ii. Safety incident logs and community engagement reports.

c) Governance Data:

   i. Board meeting minutes, corporate policies (e.g., ethics, anti-corruption, whistleblower).

   ii. Compliance reports, investor grievance logs, and audit trails.

These data streams are often integrated into enterprise systems (e.g., SAP, Oracle) or ESG-specific platforms for streamlined collection, analysis, and reporting.

DATA AUTHENTICITY AND TRACEABILITY

To ensure audit integrity and build stakeholder trust, ESG platforms incorporate several features to validate and safeguard data:

a) Document Uploads & Cross-Referencing: Reported ESG metrics can be linked to source evidence such as invoices, certifications, policies, or regulatory filings.

b) Time-Stamped Data Entries: Every data point is recorded with a timestamp to maintain transparency and enable full audit trails.

c) Third-Party Validation: Independent ESG auditors or consultants verify reported data against physical or digital evidence to ensure credibility.

d) AI & OCR Technology: Artificial Intelligence cross-checks textual disclosures for inconsistencies. OCR (Optical Character Recognition) scans and verifies uploaded documents automatically.

AI-POWERED ESG AUDIT TOOLS

AI is revolutionizing ESG audits by improving accuracy and speed: (1) Natural Language Processing (NLP) to scans company reports, media coverage, and stakeholder feedback for ESG sentiment and risks; (2) Predictive Analytics: Forecasts future ESG performance based on historical trends; and (3) Optical Character Recognition (OCR): Automates reading and verification of scanned documents such as invoices or certificates.

OTHER BENEFITS OF ESG SERVICES

Further ESG audits help in Green Energy Transition Strategy through its decarbonization goals such as replacing diesel generators with solar, wind, or hybrid alternatives is not just about compliance—it reduces Scope 1 emissions and supports corporate net-zero goals, risk mitigation by reduction of exposure to future carbon taxes, fuel price volatility, and supply chain disruptions and increasing the stakeholder confidence by demonstrating a commitment to sustainability, improving investor relations and ESG ratings.

Board-Level strategies are also enabled through the ESG Audit as they provide clear metrics and dashboards that enable "Discard, Displace, Replace" decisions at the board level. Additionally, tools embedded in ESG platforms allow boards to assess different investment scenarios (e.g., phased replacement vs. bulk capex injection) and their impact on sustainability targets. It also aligns asset planning and energy policy with broader ESG commitments, making it easier to secure financing (e.g., green bonds, sustainability-linked loans).

ESG Audit also leads to Operational Efficiency and long-term ROI, by increasing operational efficiency through newer equipment's as its typically more energy-efficient, reducing operational expense over time and increasing the visibility of the company as verifiable ESG progress improves brand perception with customers, regulators, and investors. Further, it also incorporates long-term sustainability into annual financial planning, with traceable benchmarks for accountability.

CONCLUSION

ESG audits are not just tools of compliance—they are instruments of transformation. By embedding sustainability into corporate DNA, ESG audits help organizations move beyond checklists to measurable impact. From statutory mandates to operational strategies, the ESG audit framework enables businesses to identify risks, unlock efficiencies, and chart a clear path toward long-term resilience.

Focusing on critical areas like Water, Waste, Emissions, and Energy (2W & 2Es), ESG audits offer actionable insights that align corporate performance with stakeholder expectations and global sustainability goals. They empower leadership with data-backed dashboards, enable strategic board-level decisions, and enhance transparency, all while strengthening investor confidence and brand reputation.

As sustainability becomes central to business value, Company Secretaries, with their interdisciplinary perspective and governance expertise, are uniquely positioned to steer this transition. The future belongs to businesses that are not just profitable but also responsible—and ESG audits will be the compass that guides them there.

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