
A Critical Review of The Definition of Audit with Special Reference to AAS 1 (SA 200)

**Renu Gupta*

ABSTRACT

The word “audit” has been derived from Latin word “audire” which means “to hear”. In earlier times, an auditor was appointed when accounts were suspected of some fraud. In 1494, an Italian, Luca Pacialo mentioned and described the duties and responsibilities of an auditor for the first time in his thesis, “Double Entry System of Book-Keeping”. Since then, lot of changes have occurred in the scope and definition of audit and duties and responsibilities of an auditor.

Traditionally, audit was considered to be the test function of the financial transactions only and as aforesaid, an auditor was called when some error or fraud was suspected. But contemporary audit is not limited to checking of financial statements rather it extends to the review of systems, operations, performances and other such areas. And it has also become compulsory and a legal requirement in most of the cases that audit is needed to be conducted independently of the client. Definitions of audit given by different authors in the world at large reveals the limited scope of auditing which is no more relevant in today’s circumstances.

Institute of Chartered Accountants of India (ICAI) has also defined the term “audit” in its publication of Statements on Auditing and Assurance Standards: Basic Principles Governing an Audit (AAS 1 or SA 200) . An attempt has been made in this paper to judge the relevance and significance of the definition of audit given by Auditing and Assurance Standards Board (AASB) of ICAI in AAS 1 in present context with the help of primary information collected through a questionnaire sent to 200 members of Institute of Chartered Accountants of India.

Keywords: *Scope of Auditing, Audit as per AAS 1, Non-Financial Information and Independent Examination.*

INTRODUCTION

Evolution of audit is the result of industrial revolution that took place in eighteenth century as it became difficult for sole proprietors to manage business affairs on their own. And scattering of shareholders of joint stock companies in far off places made them realize the need of an individual who could check on their behalf how their investments were being utilized by the directors. In early stages of introduction of audit, the scope of audit was limited to checking whether accounting party has properly accounted for the receipts and payments of cash. Moreover, an auditor was appointed only when some error and fraud was suspected.

In modern time, audit has become mandatory rather than optional for most of the business firms especially for joint stock companies and other institutions registered under specific enactments. Furthermore, now scope of audit is not restricted to test function of financial statements only, it extends to review of systems, operations, performances and other such areas. Moreover, today’s auditor is required to work independently of the client or management of the entity as he is generally appointed by shareholders for whom he conducts the audit and communicates the result through an auditor’s report.

STRUCTURE OF THE PAPER

The present paper has been laid out into five Sections. Research methodology is given in Section I. Section II deals with literature survey. Section III depicts scope of auditing. Section IV presents empirical findings with regard to definition of audit in accordance with AAS 1. Conclusion and recommendations are stated in Section V.

RESEARCH METHODOLOGY

This paper is based upon the study titled “Perceptions of Auditors on Various Aspects of Statutory Audit” carried out with the help of structured questionnaire. Questionnaire was sent to two-hundred members of Institute of Chartered Accountants of India (ICAI) in all. Out of two-hundred questionnaires, one hundred and sixty-eight questionnaires are returned and three questionnaires have not been included in the analysis because of incomplete responses. Thus, analysis has been made on the basis of views of one hundred and sixty-five participant auditors that constitute 82.5 percent response.

The study considers responses of chartered accountants who are practicing auditors only or may have experience of both auditing profession and industry. All of the respondents are

* Assistant Professor, Sri Guru Gobind Singh College of Commerce, University Of Delhi Email Id: Renuguptadu@gmail.com

experienced in statutory audit along with other forms of audit. They belong to different age groups and have audited several forms of organizations.

Information has been collected personally, through internet and by post. Analysis of the responses has been made on the basis of simple aggregative and percentages with the help of Microsoft excel worksheet.

LITERATURE SURVEY

Some studies have been carried out in relation to audit. A few of them contribute to corporate governance issues signifying importance of independent examination in an audit function. Research work is also done with regard to internal audit and internal control indicating application of non-financial information in audit task. Even case studies are developed to make audit students understand the value of non-financial information. Furthermore, independence of auditor in terms of audit fees or non-audit fees has also been attempted to be judged.

Wright, Krishnamoorthy and Cohen (2002) conducted a study to analyse whether auditors are sufficiently sensitive to the type and strength of corporate governance when conducting an audit. The purpose of the study was to examine how the type of the board (agency) impacts auditor's judgments relating to audit programme planning. The findings indicated that the auditors respond to type and strength of board when making decisions with respect to audit programme planning. Auditors not only increase planned audit effort when the board is assessed as weak but also decrease audit effort when the board is assessed as strong.

Agrawal and Chadha (2004) examined whether certain governance mechanisms are related to the incidence of an earnings restatement by a firm. Furthermore, the corporate governance issues: independence of the board, audit committee, use of an independent financial expert on the board or audit committee, use of independent director with large blockholdings on the board or audit committee, conflicts facing outside auditors, and the CEO's influence on the board are also analysed. It was found that several key governance characteristics are essentially unrelated to the probability of a company restating earnings. These include the independence of boards and audit committees and the extent to which outside auditors provide non-audit services to a firm. It was also discovered that the probability of restatement is significantly lower in companies whose boards or audit committees include an independent financial expert; it is higher in companies whose CEO belongs to founding family.

Ghosh and Kallapur (2004) investigated investor perceptions

proxied by earning response coefficients (ERCs), of auditor independence-in-appearance as a function of audit and non-audit fees. It was found that in separate regressions ERCs were negatively associated with the ratio of non-audit to total fees (non-audit fee ratio) and with client importance (auditor's fees from a given client divided by auditor's total revenues). When both were included in the same regression, however, only client importance remained significantly associated with ERCs.

Desai (2006) advanced research in internal audit (IA) evaluation by developing an IA assessment model that considers interrelationship among specific factors used by external auditors when evaluating the strength of the IA function. The model is built on three factors: competence, work performance and objectivity. The analysis revealed that modeling the relationship is essential for assessing the strength of the IA function. When the three factors have a strong or perfect relationship, the strength of the IA function remained high even if positive or negative evidence are there about the one of the factors. This result holds as long as there are high levels of beliefs about the other two factors.

Hoitash and Hoitash (2007) provide a detailed examination of the association of audit fees with internal control problems disclosed by public companies under provisions of Sarbanes-Oxley Act which made disclosure of internal control problems mandatory. This study suggests that companies disclosing these problems require the expenditure of greater audit engagement effort, and/ or that they lead to application of risk premia to compensate the auditor for residual risk. Audit pricing of companies with internal control problems varies with problem severity, when severity is measured either as material weaknesses vs. significant deficiencies, or by nature of the problem.

Krishnamoorthy, Cohen and Wright (2008) developed a case in order to alert students to the importance of non-financial information in audit process; to develop students ability to search for relevant financial and non-financial information in audit planning process; and to emphasise the importance of maintaining professional skepticism and to resist the natural tendency to over-rely financial information when conducting the financial statement audit. The case is suitable for use in undergraduate and graduate auditing courses. The case presents a situation where the financial results of a company appear to present relatively low audit risk, while non-financial information yields a different conclusion. The case was developed and tested in both undergraduate and graduate classes and proved to be successful in achieving its objectives.

Aurelia (2008) stated that internal audit concept is not tridimensional irrespective of property forming the capital

bears, the entity organisation, and the operating system-private-public-banking. Its goal is unique: to ensure the degree of control upon the operations for the entity, to guide the entity in order to improve its operations and to contribute to the adding of a plus value.

Hence, few studies have been undertaken on audit and auditing practices. More and more work is required to be done in this area especially in our country. There is wide scope of research as the term "audit" is very vast in terms of audit process, different branches of audit and other various aspects such As applicability of auditing standards and statutory regulations enforced by distinct authorities in this field. An attempt has been made in this paper to specify the importance of non-financial information and independent examination when conducting an audit with the help of critical examination of definition of audit.

SCOPE OF AUDITING

In early stages of introduction of audit, the scope of audit was limited to checking whether accounting party has properly accounted for the receipts and payments of cash. In other words, auditing was done to know whether cash has been embezzled and if so, who embezzled it and by what amount. Thus, it was an audit of only cash book. But the objective of modern audit is to see whether balance sheet exhibits a true and fair view of the state of affairs of a company and has been drawn in accordance with the provisions of company's act. Detection of fraud has become an incidental objective of audit in modern time. Furthermore, checking efficacy of internal control system of an entity, evaluating performances and efficiency in operations and rendering advisory services are some of the other important aspects of auditing these days.

Spicer and Pegler have defined auditing as "such an examination of books, accounts, vouchers of a business, as will enable the auditor to satisfy himself that the balance sheet is properly drawn up, to give a true and fair view of state of affairs of a business and whether profit and loss account give a true and fair view of profit and loss for the financial period, according to the best of his information and explanation given to him, and as shown by books and if not, in what respect he is not satisfied."

According to F.R.M. De. Paula, an English authority on auditing literature describes auditing as "The examination of a balance sheet and profit and loss account prepared by others together with the books, accounts and vouchers relating there to in such a manner that auditor may be able to satisfy himself and honestly report that, in his opinion, such a balance sheet is properly drawn up so as to exhibit a true and correct view of the state of affairs of the particular concern, according to the information and explanation given

to him and as shown by the books."

J.R. Batliboi, a famous authority in accounting and auditing defines auditing as "An intelligent and a critical scrutiny of books of account of a business with vouchers and documents from which they are written up, for the purpose of ascertaining whether the working results for a particular period, as shown by the profit and loss account, as also the exact financial condition of that business, as reflected in the balance sheet are truly determined and presented by those responsible for their compilation."

Institute of Chartered Accountants of India defines audit in AAS 1 (Basic Principles Governing an Audit) as "The independent examination of financial information of any entity, whether profit oriented or not and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion there on."

Montgomery, a leading American accountant, defines: "Auditing is a systematic examination of books or records of a business or other organization, in order to ascertain or verify, and to report upon the facts regarding its financial position and results thereof."

Thus, views are similar as all definitions reflect various aspects of one single dimension of auditing that it is a test function of financial statements. But the scope of contemporary auditing is extended to various realms. Auditing is not concerned with review of financial data alone. It extends to review of systems, operations of any entity and other such areas.

In this connection, description of auditing given by ICAI in its general guidelines on internal auditing (1983) presents widened scope of auditing. It defines auditing as: "A systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an entity for a stated purpose." In any auditing situation, auditor perceives and recognizes the propositions before him for examination, collect evidence, evaluate the same and on this basis formulates his judgment which is communicated through his audit report."

Hence, scope of auditing is extended to review of operations and performances connected with non-financial areas also. The purpose of auditing need not necessarily is expression of opinion about quality of financial statements alone; it may be for some stated purpose like giving some expert advice for improving efficiency, productivity of an entity or systemizing the operations. Moreover, even if the auditor is only engaged to comment upon the state of financial affairs of an enterprise, he is required to take help of non-financial aspects such as system of internal control and internal check existing in the entity to do justice with his job.

Therefore, role of non-financial information while performing an audit can never be neglected. In accordance with examples provided in SAS 56 (AICPA, 1988), non-financial information is defined as information that is not directly derived from financial statements, such as general economic conditions, technological changes in the client's industry, and new products from competitors. Discussion can be concluded with the saying, "Conducting audit without integrating non-financial information is like playing cricket without wickets." Saying meant that if you focus too strongly on financial information only, you risk missing a material misstatement in the client's financial statements.

FINDINGS: AUDIT AS PER AAS 1 (SA 200)

The Institute of Chartered Accountants of India in its publication of Statements on Auditing and Assurance Standards: Basic Principles Governing an Audit (AAS 1) describes audit as "The independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion thereon." Opinions of respondents have been tested on the basis of this definition given in AAS 1 by ICAI in terms of their satisfaction level with reasons and adjustments if any. Responses have been summarised and analysed with the help of Table 1 as follows:

Table 1: Definition of Audit as per AAS 1 (SA 200)

Responses	Number of Respondents	Percent
1. Yes	129	78.17
2. Can't Say	14	8.49
3. No	22	13.33
Total	165	100.00

Table 1 depicts that nearly, four-fifths (78.18 percent) of the respondents are satisfied with the aforesaid definition of audit. Following reasons are rendered by them as found in their responses in support of their consent with the definition of audit as per AAS 1:

1. Audit means to examine all the records of the company so as to give true and fair picture whether it is related to profit or not.
2. Without independence, no proper audit can be performed.
3. The object of an audit is to assure and express an opinion that financial statements are properly stated and free from material misstatements.
4. It is comprehensive yet brief description.
5. Definition as per AAS 1 is correct as audit is to express

an independent opinion about the financial information.

6. Here, financial information encumbrance's financial statements so as to include office financial statement items as well. It is the duty of auditor to maintain, integrity, objectivity and independence while conducting the audit.
7. Auditor is a watch dog and not a blood hound.
8. Audit is conducted by a qualified person who is not an employee of the entity and he examines various aspects of the financial information given to him by the entity and he expresses his independent opinion on that.
9. Audit whether regular or statutory, primarily deals with financial information and not with proprietary details.
10. It covers all types of organisations whether profit oriented or not and hence, it covers trusts etc.

Thus, most of participants are satisfied with the definition of audit as per AAS 1 due to one reason or another covering each and every aspect of it. On the other hand, more than one-fifth (21.82 percent) of the participants are either unsatisfied or are in state of indecisiveness with regard to audit defined as per AAS 1. Not more than even one-eighth (13.33 percent) of the participants have shown discontentment with the definition for following reasons as found in their responses:

1. The definition is needed to be adjusted as audit is independent examination of financial information and internal control to certain extent of any entity.
2. Definition speaks only about financial audit although audit is a wider term. Accordingly, it is a definition of "financial audit" but not of "audit".
3. "Our appointment should not be assigned by the company in which we are doing audit." Moreover, fee for audit should also not be paid by the client as it affects the independence of the auditor.
4. Now a days, in this commercial world, auditors have lost their independence. Nobody wants to loose their client, they have to find mid-way to retain the client and remain with the law.
5. Audit includes examination of financial as well as non-financial information.
6. Internal audit is an independent objective, assurance activity designed to add value and improve organizational operations. It is not limited to examination of only financial information.
7. The scope of audit is not limited to financial information but extends to non-financial information also as

marketing audit, efficiency audit, social audit, environmental audit and personal audit.

8. Major share of assesses is in unorganized sector where independence of auditor hardly exists.
9. In most of the cases, independence of the auditor does not exist.

Hence, discontentment amongst the auditors with regard to definition of audit as per AAS 1 is because of two reasons mainly: (i) examination of non-financial information has not been given place in it and (ii) independent examination has lost its significance in present time.

CONCLUSION AND RECOMMENDATIONS

In general, the term audit implies audit of financial statements in which auditor expresses his expert opinion about the quality of such statements or he merely attests the truth of the statements. On the other hand, in its widest scope, the term audit implies audit of non-financial matters as well like audit of operations, efficiency, performances and others. Moreover, definition of audit as per AAS 1 has also not been found unanimously satisfactory as it does not include scrutiny of non-financial information and independent examination is becoming difficult these days.

Therefore, definition of audit as per AAS 1 (SA 200) is subject to reconsideration by ICAI in light of its present widened scope. Furthermore, effective steps are inevitable to check the significance of the words “independent examination” in the definition. It is, of course, essential that an auditor preserve his objectivity and integrity from his own viewpoint, commonly called “independence in fact”, it is also important that auditor appear independent to all users of the information he provides. This latter concept is key ingredient to the value of audit function, since users of audit reports must be able to rely on the independent auditor. Following are some of the possible measures that can be taken in this respect:

- ❖ Appointment procedure of auditors should be adopted that can facilitate better independence. For example, such an independent private agency can be established by government that makes the appointments of auditors itself on behalf of entities in various organisations where audit is a legal requirement. Standards may also be required to be prescribed in such appointment.
- ❖ Remuneration of statutory auditors should also be fixed by an independent private agency created by government and payment should be made in such a manner that enterprise is involved indirectly only. It would help in

preventing any possibility of collusion between client and auditor.

- ❖ Efforts should be made to check the assesses in unorganized sector.
- ❖ Liabilities of auditors who do not present a fair and true picture must be made more stringent.

Further research should be directed at showing the objections of those who want the definition to be revised to those who are satisfied and the responses of the latter respondents must be sought.

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Environmental Reporting: A New Dimension

**Jagvinder Kaur*

ABSTRACT

Environmental Reporting: A New Dimension

We live in an age in which companies equivalent in wealth to countries call the shots and control much of the earth's resources. Because corporates intervene in so many areas of social life, they must be responsible towards society and the environment. In India as in the rest of the world there is a growing realization that capital markets and corporations are, after all, created by society and must therefore serve it, not merely profit from it.

Formal corporate reports- voluntary periodic communication by companies of information about the environmental activities and performance in an annual report began to appear at the end of 1980s'. Corporate environment reporting has traditionally being voluntary method of communicating environmental performance to stakeholders. More recently, there has been movement towards making environmental reporting mandatory. Denmark, Newzealand, France and Netherland have already introduced legislation on environmental reporting. The International environment Management System Standard ISO14001 however does not specify that company environment performance data be made public. Environmental reporting in India is at a nascent stage, even though its importance has gained significance world-wide. India has no mandatory or social reporting requirement for public companies. .This paper aims to address theoretical aspect of corporate environment reporting in India to identify the extent and nature of environmental reporting.

Keywords: Corporate Social Responsibility, not-for-profit, social enterprise, a nascent stage, little demand, social creations, hot issue.

INTRODUCTION

Corporate environment accounting and reporting is almost two decade old now. Recent national and international surveys have identified growth in the number of companies reporting on environment issues. Primary purpose of publishing an environment report is to provide specific audience with useful and meaningful information. Researchers around the world show that annual reports are most favoured channel of disclosure. Indian companies have not yet developed a holistic approach to environmental reporting guidelines. Companies are social creations whose existence depends on the willingness of the wider society to support them. For this reason environmental and social accounting has become a requisite part of business management. Creating wealth in an organization and maintaining its success depends not only on how efficiently the business manages the environmental and social issues, but also on how the stakeholders, the public interested in organisation, perceive its role as a responsible business organization. The emergence of corporate environmental reporting in the 1990's has been an important development, not only in terms of environmental management, but also more generally for overall corporate governance. At present, the subject of environmental reporting is gaining prominence as a "hot issue" in the financial reporting community.

CORPORATE ENVIRONMENT REPORTING: A CONCEPTUAL ANALYSIS

Corporate Environmental Reporting can be defined as an umbrella term that describes various means by which companies disclose information on their environmental activities to the users. This should not be confused with corporate environmental reports, which represents only one form of corporate environmental reporting. A Corporate Environmental Report is a tool to communicate a company's environmental performance.

Corporate environmental reporting is the process by which a corporation communicates information regarding the range of its environmental activities to variety of stake holders including employees, local communities, shareholders, customers, and government and environment groups.

NEED FOR ENVIRONMENT REPORTING

Financial Accounting Standard Board (1994, FAS — 1) defines the main objectives of financial reporting as:

“.....to provide information that is useful to present and potential investors and creditors and other users in making rational Investment, credit and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic

* Assistant Professor, Department of Commerce, Baring Union Christian College, Batala, E-mail Address: Jagvindercheema@gmail.com

activities and are willing to study the information with reasonable diligence”.

The objectives for environmental reporting can be expressed in the light of the above main objectives of financial reporting as follows:

“.....to provide information to present and potential stakeholders in making rational decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities as well as of environmental impacts caused through these activities and who are willing to study the information with reasonable diligence”.

Corporate environment reporting serves many different purposes for different stake holders.

1. It empowers the people and information they need to hold corporation accountable, and invite stake holders more fully into the process of corporate goal setting.
2. It permits the investor to harness the power of capital market to promote and insure environmentally- superior business practices.
3. It allows companies and their stakeholders to measure companies' adherence to the standard set forth in their statement of environmental principle, and their various goals and objectives.
4. Environmental risk in the internal part of the risk facing every organization. Reporting can help to identify such risk, and where they could arise, and thus prevent damage to reputation from negative publicity on an environmental issue.

The main reason for incorporation of environmental information within the annual reports is to increase stakeholders' awareness of the company's activities, performance, and interactions with the environment. It was hoped that stakeholders might use the information to assist their decision-making process (Jones 2000).

Nevertheless, annual report has been the primary means of corporate reporting and it is the fundamental source of environmental reporting. The usage of annual reports has grown over the years; environmental information was reported in one of the sections in the report and later as separate section. Subsequently, the practice grew with the introduction of “Stand-alone” environmental reports (O' Donovan 1999).

ENVIRONMENTAL AWARENESS IN INDIA

Following the end of British Rule, India was not in a position to pay proper attention to matters relating environment. Public awareness towards environmental issues like

environmental pollution, environmental preservation and environmental development (i.e. protecting the nature) has grown tremendously since the beginning of seventies when the law of protection of environment was passed. In India, the then Prime Minister Mrs. Indira Gandhi, during her participation in United Nation Conference on human environment in Stockholm in 1972, expressed her views that rich countries may look upon development at the cause of environment destruction, but to India, it is the primary means of improving the environment of living, of providing food, water, sanitation and shelter for making the deserts green and mountains habitable. During her tenure of service to the country as the Prime Minister, The Waste (Prevention and Control of Pollution) Act, 1974 came into effect to prevent water courses both on surface and underground pollution. Subsequently, The Water (Prevention and Control of Pollution) Cess Act, 1977 was passed. Again in 1981 another act was enacted to prevent Air Pollution, which came to be known as Air (Prevention and Control of Pollution) Act, 1981. The Bhopal disaster was an eye-opener to the Government, resulting in the enactment of a more comprehensive and well-knit act known as Environment (Protection) Act, 1986. In 1991, the Public Liability Insurance Act 1991 was also enacted. The Environment Impact Assessment Notification, 1994, the Bio-medical Waste (Management and Handling) Rules 1998 and Noise Pollution (Regulation and Control) Rules, 2000 are some of the measure to protect environment. In context of requiring environment related information from business on periodic basis the first public announcement was made by Central Government in 1991. The Ministry of Environment and Forests has proposed that “every company shall, in the report of its Board of Directors, Disclose briefly the particulars of steps taken towards adoption of clean technologies for the prevention of pollution, waste minimization, waste re-cycling and utilization, pollution control measures, investment on environment protection and impact of these measures on waste reduction, water and other resource conservation”. Even though number of measures have been taken to protect the environment but it is strange that such information are still are not being requires by Government to be publically disclosed through annual reports. Consequently, till date, any disclosures on environment matter in annual reports of Indian companies are voluntary in nature.

Environmental reporting in India is still at a nascent stage, even though its importance has gained significance worldwide. India has no mandatory or social reporting requirement for public companies. The Security Exchange Board of India (SEBI) does not make any mention of environmental and social reporting requirements in “Disclosure and Investor

Protection” guidelines. India’s National Environmental Policy (NEP) 2006, has recommended the use of environmental accounting practice and norms in preparation of statutory financial statements for large industrial enterprises. To date no such standard has been introduced. A comprehensive accounting standard on environmental reporting is being worked out by the Institute of Chartered Accountants of India to guide companies in the process. Though the norms are voluntary, they will require companies to report their performance in this regard in the form of disclosures in their annual reports. The Companies Act 1956 (sec 217) also requires companies to report on conservation in the Board of Director’s report. The latest Corporate Governance Code (2007) for public sector companies requires them to make environmental and social disclosures in the Director’s report. By 1995 over 500 companies issued formal environmental reports. Some companies embrace these reports as internal management tool and external stakeholder communication vehicle. Others have been reluctant to produce such reports citing reasons varying from perceptions that “little demand” exists for such information and questioning the usefulness of these reports.

The ministry of corporate affairs is revising the guidelines on corporate social responsibility (CSR) issued last year to add detailed norms on environmental sustainability. The fresh norms, relate to efforts to prevent wasteful use of natural resources and ensure scientific treatment of industrial waste. The existing guidelines, while urging the companies to be environmentally conscious, left it to them to take the requisite steps. It failed to provide a clear framework for compliance, leading to the companies not taking adequate steps. “The idea is to make companies responsible for the environmental impact of their products and activities”.

LEGAL CONSIDERATIONS IN VOLUNTARY CORPORATE ENVIRONMENT REPORTING:

India’s first task after the parliamentary elections in 1998 was to prescribe a National Agenda for Governance that included a comprehensive national policy to balance economic development and environmental protection. The concern for the environment has been further stimulated due to economic liberalization and deregulation in India, attaching further significance to production, manufacturing and services. India’s existing policy framework concerning environmental protection that is, the National Conservation Strategy on Environment & Development of 1992, the Policy Statement on Abatement of Pollution of 1992, and the National forest policy 1988. The national Conservation Strategy imparts the basis for the integration of environmental considerations in the policies and programs of different sectors. It stresses sustainable lifestyles and proper management and conservation of resources. The

Pollution Abatement Policy emphasises the prevention of pollution at the source. It promotes the development and application of the best available technical solutions. The policy embodies an approach by which polluters are held financially accountable for the pollution they generate and accentuates the protection of heavily polluted areas and river regions. The forest policy emphasises the maintenance of the environment through the preservation and restoration of India’s ecology. The policy seeks to significantly increase the forest acreage in the country (Prabhu, 1998/99).

The governments of India are promoting more and more regulations to protect the environment and the community in general. In order to emission from production processes, air quality regulations lay down stringent equipment specifications that are required to be implemented by the polluting industries. To minimize the global environmental problems, India has made the production and abatement technology mandatory (Chakrabarti and Mitra, 2005).

The regulatory framework governing corporate disclosure in India includes the Companies Act 1956 and the Securities and Exchange Board of India (Amendment) Act 2002. The Companies Act 1956 has been amended several times, and is now known as the Companies (Amendment)/(Second Amendment) Act 2002. The Companies Act includes detailed provisions concerning the preparation of annual accounts and reporting. The annual accounts of companies are prepared in accordance with Section 211 and Schedule VI to the Companies Act 1956. The Companies Act mandates the preparation of annual accounts of companies in accordance with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI) (Chatterjee, 2005). There is no requirement under either the in companies Act or Accounting Standards to disclose environmental information.

The Securities and Exchange Board of India (SEBI) Act 1992 has led to the establishment of a Board, to protect the interests of investors in securities, facilitate the development of the securities market, regulate the market of securities, and to provide for the incidents or matters in relation to that. The structure of the Securities and Exchange Commission (SEC) of the US guides the formation of SEBI. The stock exchange regulation of accounting in India is not very dominant till now (Banerjee, 2002). There are 23 stock exchanges in India. Each of them has different listing requirements, concerning issued and subscribed equity capital (Chatterjee, 2005). However, there is no requirement from these stock exchanges to disclose environmental information.

It is evident from the above discussion that Indian companies are not bound by any regulations to provide their environmental performance information in their annual

reports. Therefore, any information on the environment provided by Indian companies is voluntary.

CONVENTIONAL FINANCIAL ACCOUNTING AND REPORTING MODEL:

The conventional model of financial accounting and reporting is one that emphasises the importance of financial performance. The annual report deriving from conventional model highlights financial assets and liabilities, shareholder's worth, operating income, and changes in financial position of the enterprise over the reporting period. The conventional model contains relatively little by way of productive and forward looking information. The conventional model routinely ignores environmental issues. The conventional model of financial reporting minimises the role to non-financial data. Although the environment has played a larger role in corporate strategy over the last decade, it is nevertheless apparent that annual reports at present fail to convey either the significance of environmental issues to the reporting entity or any adequate description of how corporate management is attempting to integrate environmental strategy into overall corporate strategy.

The objective of financial statements as contained in the "Objectives of Financial Statements" issued by International Standards on Accounting and Reporting is to provide information about the financial position of an enterprise, which is useful to a wide range of users in making decisions and is necessary for the accountability of management for resources entrusted to it. The environment is a resource that is significant to many enterprises, and it must be managed efficiently for the benefit of both the enterprise and the society. And ultimately, issues associated with accounting for the environment have become increasingly relevant to enterprise (whether they be businesses, non-profit organizations or govt. enterprises) become a more prominent economic, social and political problem throughout the world. Steps are being taken at national and international level to protect the environment and to reduce, prevent and mitigate the effects of pollution. As the consequence, enterprise are now expected, or even required, to disclose information about their environmental policies, environmental objectives, and programs undertaken, and expenditure incurred in pursuit of these policies, objectives and programs, and to disclose and provide for environmental risk.

Topics of environmental accounting and reporting have received substantial interest from academic researchers for the past three decades. (Deegan and Gordan 1996; Freedman and Jaggi 1988; Gray and Owen 1988, O'Donovan and Gibson 2000). It is agreed that all parties should play an active role to preserve and maintain the environment. Corporates, especially, are expected to play the most

active role since their activities have caused most harm to the environment. Moreover, corporations also have more resources to undertake preservation activities. Past research on environmental management accounting issues looking into on how environmental issue can be incorporated in the overall accounting system of a corporation. In the environmental costing aspect, environment related cost should be assigned to product and processes, since they most probably produce residual that are harmful to the environment.

ENVIRONMENT REPORTING- THE ROAD AHEAD:

There is widespread environmental awareness among all sections of society in India.

Firstly world over companies now realize that natural resources (both renewable and non-renewable) are scarce. Renewable resources- cannot keep pace with the growing demand as the rate of depletion is faster than the rate of replenishment. This realization among today's business world, how so ever late, drives them to make an honest attempt on judicious use of resources, recycling of water, waste reduction etc. at their end.

Secondly with globalization, Multinational Companies (MNC) of European Union, United States of America (USA) and Japan are strengthening their global presence in India. These international companies bring in their responsible-good practices thereby helping Indian companies to set higher international disclosure standards.

Thirdly regulatory efforts are geared internationally towards reduction of the quantum of pollution by making it commercially viable and an attractive unexplored profitable business opportunity.

CONCLUSION

In some of the countries reporting practices in respect of environment issues have become mandatory. But in many countries, no such mandate has been issued. The present status of voluntary reporting should not be continued for long. In India, level of environment relating disclosure in annual reports is not at an encouraging level. Neither the company law nor the accounting standards/guidelines issued by the Institute of Chartered Accountants of India prescribe disclosing norms for the environment related matter in the corporate financial statements. On the whole, the status of voluntary environment disclosure in the annual reports of the Indian companies is not good. Now there is an urgent need to take steps globally and nationally to formulate the reporting guidelines to incorporate this issue in corporate reporting system. For doing business in future, corporate world should turn its attention towards long term

sustainability of environment.

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