

Environmental auditing is coming of age

By Wayne Visser

Environmental auditing began as a tool introduced by the United States government in the 1970s to assess compliance with their new environmental legislation. Environmental auditing in European countries only occurred in the mid-1980s, with the first environmental audits being developed and conducted by KPMG. By the late 1990s, there were internationally accepted standards on environmental auditing, namely ISO 14010-12.

Today, environmental issues can represent a significant financial burden for organisations, with liabilities for clean-up or rehabilitation running into hundreds of millions of rands. In addition, many organisations incur costly damage to their public image and brand reputation, due to poor environmental practices. South African organisations dealing internationally are also finding that environmental performance is being applied as a screening criteria for exports and investment funds.

Fortunately, responsible environmental management has been recognised in South Africa as an important indicator of good business practice. For example, the revised King Report on Corporate Governance (draft, July 2001) has a whole chapter dedicated to “non-financial matters”, which include effectively managing and reporting on environmental issues. However, the onus is on organisations to demonstrate their environmental responsibility by subjecting themselves to environmental audits.

There is still some way to go however. The *2001 KPMG Survey on Sustainability Reporting* showed that only 21% of the All Share 100 Companies listed on the Johannesburg Stock Exchange disclose that they are conducting environmental audits. For this reason, we are currently investigating, at the request of the Auditor General, how South Africa’s legislation can be improved to encourage environmental auditing.

There are various types of environmental audits, for example:

- Financial audits – according to SAAS 2501 (IAPS 1010) on “The consideration of environmental matters in the audit of financial statements”.
- Legal compliance audits – to review compliance with the local, regional, national and international environmental legislation, of which there are more than 100 pieces.
- Certification audits – as part of the certification of organisations to the ISO 14001 standard on environmental management systems.

- Due diligence audits – to assess the potential environmental liabilities of target organisations during financial transactions, such as mergers and acquisitions.
- Report audits – which involve the verification of environmental data published in annual reports, especially separate environmental reports, and the issuing of an audit opinion.
- Corporate governance audits – which check compliance with the environmental requirements of the Revised King Report on corporate governance.
- EMPR audits – according to the mining regulations on performance assessments for Environmental Management Program Reports.

KPMG offers all of these environmental audits as a service to clients. Members of the Environmental, Health & Safety Unit, who conduct these audits, are co-authors of *The Guide to Environmental Auditing in South Africa* (Butterworths, 2000).

For more information, please contact: Wayne Visser, Associate Director, KPMG Environmental, Health & Safety Unit, (021) 423 8040 or wayne.visser@kpmg.co.za.

Source:

First published as an article in KPMG's Government Perspectives (Feb): 4, 2002.