

# Can Environmental Auditors Help Protect the Rainforest? Improving Governance and Accountability in Environmental Protection

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Like many countries around the world, Brazil faces several environmental challenges. Brazil is endowed with water resources: at least 13% of the planet's renewable supply of freshwater is in Brazil. However, highly populated cities suffer from water shortage and water pollution. Brazil also owns the largest tropical forest in the world. In spite of government efforts, deforestation of native forests has continued resulting from land clearing for agricultural purposes and the demand for wood products. Illegal deforestation and timber traffic in the border areas of the Amazon Forest Region, by foreign companies, is a great problem. The Amazon forest is often called the "lung of the planet". Reduction of the forest cover will therefore contribute to the global warming of our planet. Waste and wastewater management are also an issue in these big cities.

Rapid and profound changes have taken place across our planet over the past few decades. Not only have our societies undergone rapid transformation at the hands of new economic and technological forces, but the physical world in which we live—our natural environment—is also being transformed. In 2002, the United Nations Environment Program (UNEP) released its third *Global Environmental Outlook*, also known as GEO-3. Assembled by leading scientists and experts from around the world, the *Outlook* paints an alarming picture of our planet's condition. Rainforests and coral reefs are disappearing; drinking water supplies are contaminated with disease-causing agents and toxic chemicals; air pollutants cause respiratory ailments in children and adults; land is spoiled by the dumping of hazardous wastes; overexploitation of resources is putting many animals and plants on endangered lists; and global warming is producing unprecedented changes to our climatic system. (See text box for the key environmental trends identified in GEO-3.)

**KEY ENVIRONMENTAL TRENDS**

## FORESTS

- Loss of natural forest is 14.6 million hectares annually (an area the size of Nepal).
- Deforestation of tropical forests is almost 1 percent annually.

## BIOLOGICAL DIVERSITY

- About 24 percent of mammals and 12 percent of bird species are currently regarded as globally threatened.

## FRESHWATER

- 1.1 billion people still lack access to safe drinking water and 2.4 billion lack access to adequate sanitation.
- Lack of access to a safe water supply and sanitation results in hundreds of millions of cases of water-related diseases, and more than 5 million deaths, every year.

## ATMOSPHERE

- Indoor and outdoor air pollution are estimated to be responsible for nearly 5 percent of the global burden of disease. In developing countries, 500,000 people die annually from outdoor pollution and 1.9 million from indoor pollution.
- The overall warming amounts to about 0.6 degrees Centigrade over the 20th century; the 1990s were the warmest decade and 1998 the warmest year since 1861. The warming is largely due to emissions of carbon dioxide from fossil fuel combustion.

## WASTE

- Between 33 percent to 50 percent of solid wastes generated within most cities in low- and middle-income countries are not collected.
- Fewer than 35 percent of cities in the developing world have their wastewater treated.

Source: UNEP/GEO

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The Global Environmental Outlook and other UNEP assessments show that there have been significant changes in our lives and the environment over the past 30 years. While some notable improvements have been achieved, the overall state of the environment is more fragile and degraded than in 1972. For many Supreme Audit Institutions (SAIs), none of this is news. They have identified issues of waste management, water and air pollution, forest loss, land degradation, and impaired ecosystems as the top environmental issues facing their respective countries:

Our governments are responsible for dealing with these problems and working towards solutions. It isn't an easy challenge. Because environmental problems are rooted in economic and social policies, they occur at all levels from local to global (and thus can involve municipal, regional, and national governments), and success requires action by many players over long periods of time. Nevertheless, governments around the world have addressed environmental issues over the years through the creation of environmental ministries, policies, and programs and through international institutions and treaties, laws and regulations, and expenditures:

#### **HOW DO AUDITORS FIT IN?**

What does the condition of our planet's environment have to do with auditors, you might ask? Well, if the thousands of environmental audits conducted by SAIs over the past decade are an indication, quite a lot!

"Environmental auditing" is a catch-all term used to describe a range of audit activities with a focus on the environment. While there are many variations, SAIs are currently engaged in three basic types of auditing with an environmental perspective: financial (attest), compliance, and performance (value-for-money). Each of these is formally described and defined in INTOSAI auditing standards and in guidance prepared by the INTOSAI Working Group on Environmental Auditing (WGEA). Environmental audits apply general audit methods and standards with a different focus. When conducting environmental audits, auditors typically might ask the following kinds of questions:

- Do the financial statements properly reflect environmental costs, liabilities (including contingent liabilities), and assets?
- Is the organization spending money in accordance with financial rules and governing legislation?
- Is the government complying with international environmental treaty obligations, domestic environmental laws and regulations, and government policies and programs?
- Is the government meeting the environmental performance targets it has set for itself, and what results has it achieved?
- Is the government controlling environmental risks from its own operations?
- Has the government put in place an effective accountability framework for its environmental programs and policies?

For many SAIs, environmental auditing has become a mainstream activity, as important as any other type of audit or area of mandate. And SAI efforts in this area are helping governments do a better job. Addressing environmental matters falls squarely within the mandate—some argue the responsibility—of national audit offices for the following reasons:

- Governments spend significant public resources on managing environmental problems—SAIs need to hold them accountable for prudent financial management, reporting, and results.

- Governments have signed numerous international agreements and enacted domestic laws and regulations—SAIs need to hold them accountable for compliance.

- Governments, in their financial statements, must account for the environmental costs and liabilities created by their land holdings and operations—accounting standards require them to adhere to proper accounting practices.

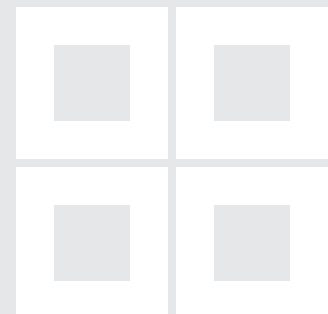
- In some cases, the governing legislation for the SAI specifies environmental requirements:

#### **MEETING THE CHALLENGES: HOW THE WORKING GROUP ON ENVIRONMENTAL AUDITING CAN HELP**

Although environmental auditing is now a popular activity in SAIs, it is not without its challenges. INTOSAI members have identified a number of real and perceived barriers to undertaking environmental audits, including:

- inadequate SAI mandates;
- insufficient established environmental auditing norms and standards;
- lack of skills or expertise within the SAI;
- insufficient data on the state of the environment;
- insufficient national monitoring and reporting systems; and
- insufficient formulation of governmental environmental policy, such as the lack of measurable goals, the absence of a strategy, and an insufficient regulatory framework.

In many ways, the INTOSAI Working Group on Environmental Auditing (WGEA) exists to help SAIs overcome these barriers. It was formed by INTOSAI in 1992 to meet the burgeoning requirement for environmental auditing expertise. The WGEA membership has grown from 12 founding members to more than 50, and it is now a large and active INTOSAI body.



For the first 9 years of its existence, the Netherlands Court of Audit chaired the WGEA, and impressive accomplishments were achieved under its leadership. Since 2001, the Office of the Auditor General of Canada has been the WGEA Chair and Secretariat. In 2001, a 15-member steering committee was established to manage the operational and day-to-day activities of the WGEA. In addition, six INTOSAI regions have established their own regional working groups on environmental auditing. The SAI of Brazil coordinates the OLACEFS regional technical committee on environmental auditing.

The WGEA aims to encourage SAIs to use their audit mandates and audit methods in the field of environmental protection and sustainable development. Its mission is to assist both member and non-member SAIs in acquiring a better understanding of the issues involved in environmental auditing, to facilitate the exchange of information and experience among SAIs, and to publish guidelines and other information for their use. The WGEA provides a variety of services and products to SAIs, including the following:

#### WEB SITE

The WGEA Web site (<http://www.environmental-auditing.org/>) is loaded with information for use by members. This includes the mission and mandate of the WGEA, contact data for members, downloadable copies of all guidance documents produced to date, titles and extracts of hundreds of environmental audits, minutes of meetings, and updates on events and activities:

#### GUIDANCE DOCUMENTS

The WGEA has developed many papers to help SAIs identify audit issues and use their mandates to conduct environmental audits. They are all available on the WGEA Web site. For a list of some of these documents, see this issue's "Reports in Print" section:

#### INFORMATION EXCHANGE

The WGEA handles this key aspect of its mission in many ways. As noted earlier, considerable information about auditing practices—including access to environmental audit reports—is available on its Web site. In addition, the WGEA now holds a technical seminar featuring presentations by SAIs as part of its regular meetings. The 8th meeting of the WGEA held in Warsaw in June 2003 featured sessions on the topics of waste, water, and sustainable development. At the 9th meeting, to be held in Brasilia in June 2004, seminar sessions will deal with biodiversity, meeting new challenges, regularity audits, and joint, concurrent, or coordinated audits:

#### TRAINING

In 2002, the WGEA entered into a unique partnership with the INTOSAI Development Initiative (IDI) to develop a training program for environmental auditors designed to strengthen SAIs' ability to conduct environmental audits. Environmental subject matter experts and certified training specialists worked together to produce an intensive, 2-week training course on environmental auditing that has met with enormous success. The first pilot course, the Environmental Auditing Workshop, took place in Antalya, Turkey, in 2003 and the second in Nairobi, Kenya, early this year. Plans are underway to deliver the course in other regions. Plans are underway to deliver the course in the OLACEFS region:

#### SURVEY OF MEMBERS

Among the tools developed by the WGEA to assist SAIs in conducting environmental audits are the INTOSAI member surveys it carries out every 3 years. The surveys gather information that serves as a milestone to mark the progress achieved by WGEA members and allows for the evaluation of trends and accomplishments. The information also serves to shape the WGEA's work plan, strategies, and products. Since the inception of the WGEA, four separate surveys have been undertaken:



The fourth INTOSAI survey conducted in 2003 covered 2000-2003. It was sent to all the SAIs participating in INTOSAI. The results are quite revealing: 67 of the 114 responding SAIs have conducted one or more audits concerning environmental issues. Of these, 54 percent have personnel dedicated to environmental auditing and 72 percent indicated an interest in auditing aspects of sustainable development. Perhaps most impressive was the volume and range of environmental audits conducted by SAIs (see table 1).

**TABLE 1: ENVIRONMENTAL ISSUES AUDITED BY SAIS, 1994-2003 ( \* )**

Environmental issue	Number of reports		
	2000-2003	1994-1996	1997-1999
Internal environmental management by public authorities or departments	138	162	81
Freshwater: drinking water, water quality, rivers, lakes	132	131	147
Waste: waste in general, hazardous waste, non-hazardous waste, waste processing, landfills	118	103	126
Pollution prevention	83	74	73
Agriculture, pesticides, land development, forestry	74	85	85
Nature and recreation (including national parks and forests, recreation and tourism)	73	102	83
Eco-systems: biodiversity, ecological infrastructure, eco-systems management	64	57	57
Environment and human health	60	72	110
Traffic, mobility, transport	58	32	61
Air pollution	45	72	65
Salt water: marine pollution	39	25	29
Industrial pollution	36	81	70
Disaster management and emergency preparedness	35	33	30

# A report may be listed in more than one category.

**THE WGEA: FUTURE DEVELOPMENT AND DIRECTION**

The WGEA's future certainly looks bright—and busy. Interest in getting support from the WGEA seems to be at an all time high. SAIs are seeking more guidance on a range of environmental topics, more training and technical assistance, and more opportunities for information exchange:

In February 2004, the Steering Committee of the WGEA met in Lima, Peru. It reviewed its draft work plan for 2005-2007, which will be discussed by the full WGEA at its upcoming meeting in Brasilia:

The WGEA has set a number of ambitious goals:

- to increase the number of parallel, joint, or coordinated audits environmental audits by SAIs;
- to expand SAI training in environmental auditing techniques;
- to increase cooperation and communication between the WGEA and other international organizations;
- to expand the breadth of environmental auditing tools available to SAIs;
- to strengthen communications and information sharing among SAIs; and
- to explore the potential for funding sources to support WGEA activities.

Once the WGEA's work plan is finalized, it will be presented to the XVIII INCOSAI in Budapest in October 2004 for formal adoption:

**MORE HELP IN MEETING THE CHALLENGES**

Environmental auditing is here to stay. This International Conference on Environmental Auditing is a wonderful opportunity for all SAIs to learn from others and to upgrade their practices in order to help their respective governments improve environmental and sustainable development performance and to protect the health and safety of their citizens. While it may appear that auditors are "closet environmental do-gooders" who believe that their work can help reverse disturbing global trends by improving the way governments address environmental problems, the reality is that environmental matters fall squarely within the mandate of SAIs. ■

