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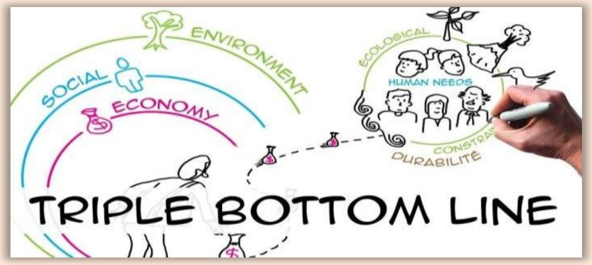
TRIPLE BOTTOM LINE



Introduction - Meaning:

Triple bottom line is a sustainability-based accounting method that focuses on people, profit and **planet.**

In the mid-1990s, famed British management consultant and sustainability guru , Volans co- founder , John Eklington coined the phrase “Triple Bottom Line” . The triple bottom line can be envisioned as a three-legged tool , with one leg representing people , one leg representing the planet and one leg representing profit.

The Triple Bottom Line is an sustainability framework that examines a company’s social, environmental and economic impact. The TBL theory holds that if a firm looks at profits only, ignoring the people and planet, it cannot account for the full cost of doing business. In some more detail, they entail the following:

1. People - the Social equity Bottom line:

The people, social equity, or human capital bottom line pertains to fair and beneficial business practices toward labour and the community and region in which a corporation conducts its business. A TBL company conceives a reciprocal social structure in which the well-being of corporate, labour and other stakeholder interests are interdependent. These include employees, its families, customers, suppliers, communities, and any other person influencing or being affected by the organization.

A TBL business also typically seeks to "give back" by contributing to the strength and growth of its community with such things as health care and education. Quantifying this bottom line is relatively new, problematic and often subjective. The Global Reporting Initiative (GRI) has developed guidelines to enable corporations and NGOs alike to comparably report on the social impact of a business.

1. **Planet - the Environmental Bottom line :**

A TBL company endeavors to benefit the natural order as much as possible or at the least do no harm and minimize environmental impact. the positive and negative impact an organization has on its natural environment. This includes reducing its carbon footprint, usage of natural resources, toxic materials and so on, but also the active removal of waste, reforestation and restoration of natural harm done.

"Cradle to grave" is uppermost in the thoughts of TBL manufacturing businesses, which typically conduct a life cycle assessment of products to determine what the true environmental cost is from the growth and harvesting of raw materials to manufacture to distribution to eventual disposal by the end user. The ecological bottom line is akin to the concept of eco-capitalism.

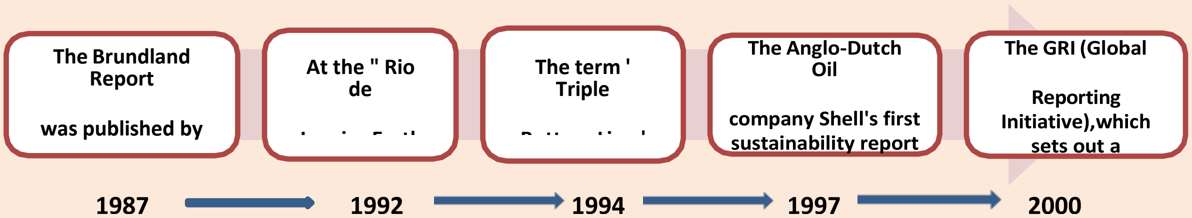
1. **Profit - the Economic Bottom line :**

   The positive and negative impact an organization has on local, national and international economy. This includes creating employment, generating innovation, paying taxes, wealth creation and any other economic impact an organization has.

   In the interpretation of these three, there is clearly most confusion about the third: profit. Mostly, this is interpreted in traditional sense, meaning the financial profit a company makes. But this interpretation is too limited and wrong for two reasons. First, it focuses on the financial aspect only. As the quotes above clearly illustrate, though, economic impact is a much wider idea than just financial impact. Second, it focuses on profit for the organization only. The original focus, though was on societal impact- and thus societal profit.

History – Origin:

Quakers are often thought of as the first investors to screen their investments according to their values and beliefs. "They realised that their investments should not be contrary to what they said or stood for ". Socially responsible investing (SRI) is the notion of supporting companies whose values and practices align with the investors' values.



Triple Bottom Line (TBL) as a tool:

Management tool	Reporting Tool
• Full cost accounting (FCA) would be required to embrace the sustainable development. • Almost all the work in the field of environment -related management accounting is that of providing decision makers and others with better representation of reality through more accurate knowledge of environmental cost.	• It is also known as sustainability reporting, as company adopt revolutionary risk management which help the business sustainability by publicly disclosing its economic ,environmental and social performance.

The concept of Sustainability: Sustainability is a big concept just like "justice" or "freedom", and like these concepts, in the Brundland report of 1987, defines sustainability as the "development that meets the needs of the present generations without compromising the ability of the future generations to meet their own needs". The Triple Bottom Line Accounting on the other hand(TBLA) refers to as "brilliant and far-reaching metaphor ", concerted effort to incorporate economic, environmental and social considerations into a company's evaluation and decision making processes.

The picture besides shows the real hierarchy of sustainability. Plant cells belong to the environment circle of the Triple bottom line. If plant cells are the original creators of the structure, then this is the circle on which everything else depends, or in which everything else is embedded. Everything comes from nature at some point. Soceity, which is related to social circle of the triple bottom line, exist within the environment. And economy is a by- product of society. Instead of three overlapping circles, we have three nested circles, where the economy is a wholly owned subsidiary of the environment.

Thus, TBL is an essence of sustainability by measuring the impact of an organisation's activities on the world. Sustainability can be illustrated as a place where the three dimensions overlap.

Does TBL cover the full ground of sustainability and CSR ?

1. **In order to be sustainable, organizations will have to be accountable to their stakeholders.**

Accountability is about the ability to give an account of something to somebody who has an interest in it and is in itself a "social value". The idea of transparency is often mentioned in connection with accountability; which implies an absence of bribery and corruption in business affairs. Thus, all this suggest that for organisations to have greater confidence that no sustainability issues have been overlooked, it is crucial for them to work with all range of stakeholders and it is possible to say that it can fit reasonably well into three dimensions of the triple bottom line.

2. The issue of the scope of economic dimensions must be distinguished from the expression of environmental or social impacts in financial terms. It is just a way of using the financial units to capture environmental performance. It is often argued that a sustainable market system would be one in which there were no economic externalities. However, it is difficult to identify and perhaps more difficult to police their elimination.

3. The long-term perspective is expressed as a need for investment, and it results in the accumulation of capital, which sustains higher profit levels that would otherwise be possible. The environmental and social sustainability is clearly immensely strengthened if the long-term approach is combined with an appreciation of the interaction of social and environmental with economic performance. The triple bottom line analogy speaks only to the equivalent of short term returns.

4. Sustainability is essentially a system property, there are also critical qualitative characteristics that any sustainable system must embrace. Foremost among them is Diversity.

Thus, TBL approach is nearly sufficient with two qualifications. Firstly, the economic dimension must be interpreted in a broad sense, not a narrow financial one; and a further accounting, beyond the immediate tally of today's impacts, must takes place that embrace the concept of capital and time dimension of sustainability.

Key Benefits:

1. The TBL recognizes changes in the business world – Businesses have been adopting socially and environmentally responsible practices for decades and arguably even centuries. The TBL named this trend toward sustainability and social responsibility, which gives the trend more legitimacy and power in the business world.
2. Reputation – The key benefit often associated with pursuing the TBL initiatives is an improvement with the organisations reputation in the public eye. This can have a range of positive side effects, as consumers, other organisations and employees favour that have a positive reputation.
3. Recruitment and retention of talent – Studies have shown that individuals will choose to work for a organisation with a positive social reputation over one that does not. Therefore, pursuing these initiatives will help recruit the best talent and keep them working for you.
4. Increasing Productivity- Initiatives to reduce waste and utilise sustainable operations can also improve productivity and save costs.

5. The TBL doesn't ignore social concerns – The TBL acknowledges that without high standards for human rights , equality and human communities, companies will not gain consumer support and will be forced to close their doors.

Key Disadvantages:

1. Marketing Tool and doesn’t include specific guidelines - Often these initiatives can come across a simply marketing tools, with no real objective to improve performance. If organisations only want to appear to be monitoring the triple bottom line, rather than actually doing it, then they will be wasting resources.
2. Objective Lost - The Triple Bottom Line, while having the potential to improve productivity, is not enough to have as a sole strategy. Therefore, only pursuing the triple bottom line will allow other objectives to be lost.
3. Lack of understanding - The triple bottom line is a complex tool and is not always understood fully, in particular as there are no precise measurement tools for each element. This means resources can be wasted pursuing the wrong things.
4. No precise measurement - No precise measurement exist for each of the three elements and this can make it hard to measure and control the performance.
5. No level of hierarchy - The TBL concept does not show the level of hierarchy between the three concepts. Therefore it is also known as “Weak Approach” to sustainability.

Challenges of Applying Triple Bottom Line:

Following are the challenges that companies can face when applying the triple bottom line.

1. Measuring the TBL –

The key challenge of the TBL, according to Eklington, is the difficulty of measuring the social and environmental bottom lines. Profitability is inherently quantitative, so it is easy to measure. What constitutes social and environmental responsibility, however, is somewhat subjective.

2. Mixing inverse elements -

It can be difficult to switch gears between priorities that are seemingly antithetical- such as maximizing individual financial returns while also doing the greatest good for society. Some companies might struggle to balance deploying money and other resources, such as human capital, to all the three bottom lines without favouring one at the expense of another.

3. Ignoring the TBL framework –

There can be dire repercussions when companies ignore the TBL in the name of profits. The three well known examples of this are:

- Destruction of the rainforest
- Exploitation of labour
- Damage to the ozone layer

Examples of Triple Bottom Line:

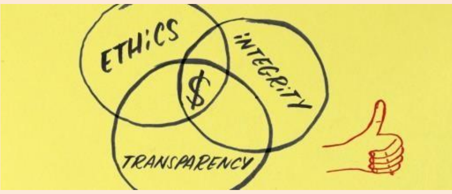
1. A social enterprise running as a non-profit, but earning income by offering opportunities for handicapped people who have been labelled "unemployable" , to earn a living by recycling .
2. Unilever – aims to reuse 100% of plastic packaging by 2025.
3. Patagonia- reuse old clothes
4. Apple – achieved 100% green energy
5. Starbucks corporation – The ubiquitous coffee company takes really good care of their employees and offers tuition assistance. The company is also committed to hiring veterans.

Conclusion:

The triple bottom line is radically different way of looking at enterprise. Success no longer needs to be solely based on financial gain. Profit obviously is still important, however this success should not be the detriment of the environment and the people who live within it. If all the three aspects of the Triple Bottom Line are considered when evaluating and reporting new ventures, far superior results will be obtained.

Pursuing the triple bottom line initiative increases the transperancy and accountability of an organisations operations. Thus, economic decisions should be part of strategy to make more money while getting closer to social and ecological sustainability. The economy is a means to an end. Not an end in itself.

However, on top of this, it is believed that organisations have a social responsibility to monitor these things, as they are responsible for all the stakeholders, whether they affect them directly or indirectly. This tool is a reporting system, rather than used for actually improving the performance.



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AUDIT TOOLS

TOOLS OF AUDITING:-

Once we complete preparing the final statements and accounts for the year the accounting process is over. However, we still cannot be completely certain of the accuracy of these accounts. This is when the concept of auditing comes in. Let us learn more about the tools of auditing.

- Audit Plan
- Audit Programme
- Audit Evidence
- Working Papers

Audit Plan

Audit plan states the strategies, audit procedure and methods to be followed for carrying out an audit. It is the first step of an audit. Audit plan states the audit procedures to be applied for conducting an audit and obtaining sufficient and appropriate audit evidence. It includes the information regarding client's business, audit team members, work allocation between team members, nature, timing, and extent of audit procedures, etc.

It enables members of the audit team in identifying where special attention is required, the materiality of evidence, coordinating with team members and management and effectiveness of internal control.

The objective of the auditor is to plan the audit in such a way so that audit can be performed in an effective and efficient manner considering all the material things.

The auditor should consider the following matters before planning for an audit:
1.Terms of Engagement and any Statutory Responsibilities:
While preparing an audit plan, the auditor should consider his terms of appointment and responsibilities cast on him by various other applicable laws.

2. Nature and Timing of Report or other Communications:
The auditor should determine the time and form of audit. It enables the auditor to allocate work between team members and complete the work on schedule.

3. Accounting Policies followed by the Enterprise and Change in those Policies:
While preparing audit plan auditor should check whether there is any change in accounting policy that an entity (auditee) follows and if there is any change he should duly consider the areas affected by such change.

4. Effect of New Accounting or Auditing Requirements:
While preparing audit plan auditor should give due importance to the change in accounting standards (AS) and auditing standards (SA's) which may affect the scope of the audit or the manner of conducting such an audit.

5. Identification of Significant Audit Areas:
It is very important for the auditor to identify the areas where the audit risk is high; so that he can plan the audit in such a way that overall audit risk reduces to the minimum. Identifying the areas having high audit risk is based on the professional judgment of auditor.

6. The setting of Materiality Levels for Audit Purposes:
Auditor sets the materiality levels. For Example – Auditor may consider that in case of audit of sales, he will examine all sales transaction above 10000 or in case of purchase he will examine all purchase transactions above 5000.

Audit Programme

An audit program is a set of directions that the auditor and its team members need to follow for the proper execution of the audit. After preparing an audit plan, the auditor allocates the work and prepares a program which contains steps that the audit team needs to follow while conducting an audit. Thus, an auditor prepares a program that contains detailed information about various steps and audit procedures to be followed by the audit.

An audit program provides a basic plan for the audit team regarding the entity's business, its size, how to conduct the audit, allocation of work among team members and the estimation of time within which it should complete the work.

It contains details regarding the relevancy of evidence, materiality level, risk tolerance, measure of the sufficiency of the evidence. Thus, programs enhance the accountability of the audit team and its members for the work performed by them.

Advantages of the Audit Programme

1. An audit program helps in ensuring that all-important areas are considered while conducting the audit.
2. An audit program helps an auditor in the allocation of work among its team members according to their skills and competency.
3. It enhances the accountability of audit team members towards work performed by them
4. An audit program also reduces the scope for misunderstanding among team members regarding the performance of audit work.
5. It helps the auditor in checking the status of audit work, its progress, how much it is left for performance while conducting the audit.
6. Auditor prepares audit working papers which contains a record of various audit procedure applied which serves as evidence against the charge of negligence.
7. Audit program enables the auditor to keep a record of useful information specifically for future audit and references.

Disadvantages of Audit Programme

1. **Rigidity**: There is no set standard audit program that can be applied in the case of every entity. However, programs differ for different types of entities. Every entity has its own problems. Therefore, we cannot apply for a single audit program in the case of all business entities.
2. **Reduces the Initiative of Efficient Staff**: – A program reduces the initiatives of efficient and competent staff. Thus, staff members cannot make changes in the audit plan and cannot make suggestions to it.
3. **Audit Work becomes Mechanical:** The program becomes mechanical when it ignores other aspects like internal control.
4. **Overlooking New Areas:** A program may overlook the new areas. With the change in time and technology, new problems may arise which an audit program may not consider.

Audit Evidence

An audit is a systematic independent examination of financial statements, records, documents with an objective to express an opinion on the financial statements of an entity whether they are giving a true and fair view or not. Auditor expresses his opinion (whether the financial statements of an entity are giving a true and fair view or not) on the basis of audit evidence collected by him.

An auditor applies various audit procedure to obtain audit evidence which enables him to form an opinion whether the financial statements of an entity are free from material misstatement and state a true and fair view or not.

Audit Evidence is the information that the auditor uses in arriving at a conclusion on the basis of which he forms his opinion.

Essentials of good audit evidence

Sufficient: Sufficiency is the measure of quantity. Audit evidence is sufficient when they are available in adequate quantity. An auditor applies different audit procedures to obtain sufficient audit evidence like test checking.

Reliable: Evidence obtained by the auditor is persuasive rather than conclusive. We cannot consider such evidence 100% reliable for forming an opinion. Reliability of audit evidence depends on its source and nature of such evidence.

Source: Audit evidence obtained within the enterprise is known as the internal source. Evidence obtained from an outside enterprise like confirmation from the third party is known as the external source. We consider the external source to be more reliable.

Nature: Can be documentary (like bills, vouchers), visual (like the physical verification of fixed assets), or oral (confirmation from employees)

Relevant: Whether the audit evidence obtained by the auditor is relevant or not depends on the purpose of audit procedures.

There are some thumb rules which helps in identifying the appropriateness of evidence

1. Written (documentary) evidence is better than testimonial evidence.
2. Evidence from external sources is more reliable.
3. Original documents are preferable over their photocopies.
4. The auditor should have a good understanding of internal control of the organization as it enables him to obtain relevant evidence.
5. Evidence obtained by auditor through direct observation, inspection, physical verification, and computations are better than the evidence obtained indirectly.

Working Papers

Audit working papers are the outcome of the documentation process. Working papers are the record of various audit procedures performed, audit evidence obtained, allocation of work between audit team members etc. Audit working papers are the documents and evidence that an auditor collects and retains with himself during the audit.

Audit working papers support the work that the auditor performs for providing assurance that he conducts the audit in accordance with all the applicable standards on auditing (SA's).

They constitute all the audit evidence that an auditor obtains. Also, it contains various procedures that he applies to indicate that the audit is performed by him.

The auditor and his audit team members prepare the audit working papers while performing the audit. Working papers are connecting link between the client's records and audited financial statements.

Working papers provide entity's historical records as well as matters which should be taken care and given due importance while performing future audit's of such entity.
Audit working papers help auditor in audit planning and collecting evidence of the audit work performed on which his opinion is based.

Working papers helps auditor in allocating the time required for performing various audit procedures. The working paper helps auditor to maintain a record of various matters discussed with management while conducting an audit.

Also, the working papers help audit team members to understand entity's business, points which they need to check on a priority basis, queries and actions against them in previous audits. Working papers helps auditor in future cases to protect himself if the client files a suit against auditor for auditor's negligence while conducting the audit.

Working papers provide information on the following matters

- Information about audit team members and work allocated to them. Information regarding unallocated work
- Whether he follows all the applicable standards on auditing (SA's) or not
- He properly plans the audit or not
- Whether there was proper supervision over the work performed. Enabling the audit team members to be responsible for the work performed by them
- An auditor undertakes an appropriate review or not
- Whether the evidence is relevant, sufficient and appropriate to support the opinion of the auditor.

We can divide the working papers into two parts

1. **Permanent audit file**
2. **Current audit file**

A permanent audit file contains information which is of continuous interest and is relevant in future audits. Information like articles of association, loan agreements, leases, documents related to internal control of the entity, record of accounting policies followed by the entity on a continuous basis, significant observations of previous audits etc.

A current audit file contains information regarding audit conducted for the current period. It includes information like financial statements and audit report of the entity, trial balance and worksheets, records regarding internal control risk of an entity, external confirmations received, queries of auditor and reply received from the management etc.

CONCLUSION:-

This tool **facilitates them to make search from the irregularities from the given data**. With the help of this tool, the auditors and accountant of any firm will be able to provide more analytical results. These tools are used throughout every business environment and also in the industry sectors too.

THANK YOU