

# INDIA'S ENVIRONMENT AUDIT RULES – A STEP IN THE RIGHT DIRECTION

## Abstract

India's robust environmental laws have historically faced weak enforcement, resulting in an "implementation deficit" that hinders national commitments to SDGs like Net Zero by 2070. To strengthen the compliances and address this situation, the Ministry of Environment, Forest and Climate Change has notified the **Environment Audit Rules, 2025**. The objective of this paper is to assess the implications of the notified rules for environmental governance, compliance, and professional opportunities for CMAs arising therefrom. These Rules introduce a mandatory, independent, third-party verification system to supplement existing regulatory bodies. The new institutional structure envisaged in the notified rules is expected to play a major role in bridging capacity gaps and ensure accountability. The audit scope is broad, covering major environmental legislations, waste management, and new frameworks like the Green Credit Rules. The initiative shifts environmental governance from reactive enforcement to a proactive, expert-led compliance architecture, significantly boosting transparency and creating new roles, especially for professionals like CMAs.

## Background

**W**ith the increasing focus on ESG (Environment Social and Governance) including the importance attached to climate change related issues, the challenge before the governments world over is to balance Ease of Doing Business with responsibility towards providing a clean environment.



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In the case of EU generally, most of the member countries have established complex multi-layered system of governance to implement and enforce compliance of the prescribed regulations. In the case of USA with its complex Federal – State structure often characterised by variations between the states, the courts play a stellar role in enforcing and interpreting environmental law in a system well-known for “adversarial legalism”, where activists and citizen groups often bring lawsuits against polluters.<sup>1</sup> Amongst the emerging economies, China has prioritised economic growth. However, yielding to pressure groups it has put in place legal environmental framework since 2014,

<sup>1</sup> [https://repository.law.umich.edu/book\\_chapters/417/#:~:text=Environmental%20regulation%20in%20the%20United,%2C%20industrial%2C%20and%20governmental%20activities.](https://repository.law.umich.edu/book_chapters/417/#:~:text=Environmental%20regulation%20in%20the%20United,%2C%20industrial%2C%20and%20governmental%20activities.)

but the structure is extremely complex involving multiple ministries and regulations, which has affected the enforcement and compliance.

India has in place a complex and well-intentioned structure with respect to rules and regulations concerning environment protection dating back to 1986, but is hampered by a fragmented governance structure contributing to weak enforcement characterised by lenient penalties which have given rise to a “Pollute and Pay” culture as against the targeted robust compliance. Further, there is an implementation deficit despite there being strong laws and judicial pronouncements mainly due to inadequate resources and staffing in regulatory bodies, corruption, prolonged judicial processes and lack of public awareness.<sup>2</sup> After detailed consultations with the stakeholders, the central government has notified the Environment Audit Rules, 2025 (notified rules) to strengthen the compliance mechanism.

### Necessity for an audit mechanism

Viewed from a global perspective, India has given specific commitments towards Sustainable Development Goals (SDGs) relating to climate, energy and resource management such as for example Net Zero by 2070, Reduction of emission intensity vis-à-vis GDP by 45% compared to 2005 levels before 2030, and achievement of at least 50% electricity generation capacity through non-fossil sources by 2030. It is important to not only achieve these goals but from a regulatory perspective it is necessary to obtain reasonable assurance with respect to the reliability of the environment related data based on which it is sought to conclude whether the accomplishment of the SDGs has been achieved and if not the extent of deviation.

According to the preamble to the notified rules, the audit mechanism is being evolved primarily to strengthen environmental accountability, compliance, and governance across India. It clearly provides that the environment audit as envisaged is not an alternate to the existing system of compliance and monitoring through government agencies but is only to supplement the current efforts of the government

<sup>2</sup> <https://taxguru.in/corporate-law/environmental-legislation-in-india-challenges-pathways.html#:~:text=Ineffective%20Law%20Enforcing%20and%20Corruption,the%20potency%20of%20law%20enforcement.>

agencies, which will continue with their existing role of inspection and verification, as and when required.

The necessity for the audit mechanism, as reflected in the objectives and rationale of the Rules, include:

- ⊙ *Bridging Capacity Gaps*: The audit mechanism, by introducing a pool of certified, independent auditors, aims to supplement the existing compliance monitoring framework provided by government regulators (like the Central Pollution Control Board and State Pollution Control Boards). This is essential to overcome manpower and infrastructure deficits faced by regulatory authorities in comprehensively monitoring a vast number of industries and projects.
- ⊙ *Ensuring Independent Verification and Accountability*: The mechanism seeks to institutionalize independent third-party verification of environmental performance. This promotes greater transparency, objectivity, and accountability by creating a system where a Registered Environment Auditor (REA) independently assesses an entity’s compliance with environmental laws, standards, and clearance conditions.
- ⊙ *Promoting Compliance and Prevention of Degradation*: The audit is a systematic process to assess how well an entity is complying with environmental laws (such as the Environment Protection Act, 1986, and the Air/Water Acts). This ensures that projects adhere to stipulated safeguards, verify the effectiveness of pollution control measures, and identify violations to initiate prompt remedial steps, thereby helping to prevent, control, and abate environmental pollution.
- ⊙ *Aligning with Strategic Environmental Frameworks*: The mechanism is necessary to integrate and support emerging environmental instruments and national commitments, such as the Green Credit Rules, ESG (Environmental, Social, and Governance) disclosures, “Ecomark” certification, and India’s goals under the LIFE (Lifestyle for Environment) mission. Audits provide the data and verification needed for these frameworks.
- ⊙ *Enhancing Trust and Ease of Doing Business*: The rules envisage professionalism in the audit

process through certification, registration, and a system of random assignment for auditors, thereby seek to reduce conflicts of interest, build public and institutional trust in environmental assessments, and at the same time, ease the process of doing business by creating a more transparent regulatory environment.

It is hoped that the audit mechanism will facilitate the transition towards a proactive, structured, and expert-led compliance architecture as against the presently reactive enforcement of compliance in the environment space thereby boosting environmental governance.

### Effective date of the Notified Rules and coverage

The notified rules namely Environment Audit Rules, 2025 has come into effect from 29<sup>th</sup> August 2025 being the date of the official notification by the Ministry of Environment, Forest and Climate Change (MoEFCC).<sup>3</sup>

The preamble to the notified rules refers to certain principal legislations and subordinate legislations specifically but is inclusive in nature as can be inferred from the use of the words “and other such legislations or under extant rules, regulations, notifications or directions of the Government, which mandate verification and auditing for the purposes of ascertaining compliance under various legislations or notifications or directions”. This flexibility indicates a huge unbounded potential for the environmental audits.

The following principal and subordinate legislations are specifically listed in the preamble<sup>4</sup>: -

- ⊙ Environment Protection Act, 1986
- ⊙ Ecomark Rules, 2024,
- ⊙ E-Waste (Management) Rules, 2022,
- ⊙ Plastic Waste Management Rules, 2016 and
- ⊙ Battery Waste Management Rules, 2022 and
- ⊙ Any other rules issued by the MoEFCC from time to time.
- ⊙ Van (Sanrakshan Evam Samvardhan) Adhiniyam, 1980,

<sup>3</sup> Notification No. S.O. 3973(E) dated 29<sup>th</sup> August, 2025 issued by the Ministry of Environment, Forest and Climate Change (MoEFCC).

<sup>4</sup> Ibid..3

### ⊙ Wild Life (Protection) Act, 1972

There are also references to the *Air (Prevention and Control of Pollution) Act, 1981*, the *Water (Prevention and Control of Pollution) Act, 1974*, *Notifications related to Environment Impact Assessment and Coastal Regulations Zone* within the notified rules.

### Key Stakeholders and Responsibilities in Environment Audit

The Institutional structure consists of **Environment Audit Designation Agency (EADA), Certified Environment Auditor (CEA) and Registered Environment Auditor (REA)**. Other than EADA, CEA and REA, the Project Proponent and the Regulatory authorities are the key stakeholders. Given below is a summary table outlining the key stakeholders and their primary responsibilities within the institutional structure of Environment Audit:

Stakeholder	Role/ Description	Key Responsibilities
<b>Environment Audit Designation Agency (EADA)</b>	An agency notified by the Central Government for overall management of the Environment Audit function.	Overall management of the Environment audit function. Certifying and <b>registering auditors</b> (CEA/ REA). Conducting examinations <b>Monitoring Performance</b> Maintaining an <b>online public register</b> . Facilitating training.
<b>Certified Environment Auditor (CEA)</b>	An <b>individual</b> certified by EADA as qualified to undertake audits.	Qualified to <b>undertake audits</b> and such other functions. Qualifies either through a National Certification Examination or by way of Recognition of Prior Learning.

Stakeholder	Role/Description	Key Responsibilities
<b>Registered Environment Auditor (REA)</b>	A CEA or a firm/body corporate with two or more CEAs, registered with EADA.	<b>Conducting Environment audits and</b> Performing such other functions as may be prescribed by the Central Government.
<b>Project Proponent</b>	Entities, developers, and industries that must comply with environmental norms and/or require regulatory clearance.	Complying with environmental norms. <b>Providing access</b> to auditors/inspectors. <b>Co-operating</b> with auditors/inspectors in the discharge of their duties.
<b>Regulatory Authorities</b>	Comprised of Central and State Pollution Control Boards (CPCB/SPCB), Pollution Control Committees (PCC), and MoEFCC.	<b>Assigning the audits/audit duties.</b> <b>Monitoring compliances</b> along with the findings of the REA.

**Scope of Audit by REAs under the notified rules**

The scope of an environment audit as per the Environment Audit Rules, 2025 (of India) is broad and systematic, focusing on independent third-party verification of compliance with various environmental laws and obligations.

The key areas that fall under the scope of the environmental audit include:

**1. Compliance Evaluation:**

- ⊙ Systematic audit, verification, examination, inspection, or analysis of any project, activity, or process that has a bearing on the environment.
- ⊙ Verifying adherence to environmental standards and stipulated safeguards prescribed by regulatory authorities.
- ⊙ Assessing conformity with general as well as specific conditions mentioned in various

“green approvals” like Environmental Clearance (EC) and Coastal Regulation Zone (CRZ) compliance.

**2. Statutory Compliance Verification:**

- ⊙ Checking compliance with major environmental laws, including the:
  - ▲ Environment (Protection) Act, 1986
  - ▲ Water (Prevention and Control of Pollution) Act, 1974
  - ▲ Air (Prevention and Control of Pollution) Act, 1981
  - ▲ Forest (Conservation) Act, 1980 (referred to as Van (Sanrakshan Evam Samvardhan) Adhiniyam, 1980)
  - ▲ Wild Life (Protection) Act, 1972

**3. Pollution and Waste Management:**

- ⊙ Conducting sampling and analysis of emissions, effluents, and solid or hazardous wastes.
- ⊙ Evaluating the performance and effectiveness of installed pollution control systems and waste management systems.
- ⊙ Undertaking audits under specific frameworks like:
  - ▲ Waste Management Rules (e.g., Plastic Waste Management Rules, E-Waste Management Rules, Hazardous Waste Management Rules).
  - ▲ Extended Producer Responsibility (EPR) compliance.

**4. Reporting and Enforcement Activities:**

- ⊙ Identifying and reporting any violations or non-compliance with environmental regulations.
- ⊙ Computing environmental compensation for non-compliance and violations, where required by the competent authority.
- ⊙ Verifying self-compliance reports submitted by project proponents.

**5. Integration with New Environmental Frameworks:**

- ⊙ Undertaking verification activities under the Green Credit Rules, 2023 (for carbon and ecological credits).
- ⊙ Conducting audits for schemes like “Ecomark” certification and supporting

disclosures related to ESG (Environmental, Social, Governance).

**Opportunities for CMAs**

The Environment Audit Rules, 2025, create significant opportunities for Cost and Management Accountants (CMAs) by formalizing the requirement for third-party environmental compliance verification, which inherently links environmental performance with financial and operational efficiency.

CMAs can leverage their expertise in cost analysis, resource optimization, and management reporting to fulfil new and expanded roles in Environmental Management Accounting (EMA) and auditing.

**1. Statutory Role as a Registered Environment Auditor (REA)**

The direct opportunity is to qualify as a Certified Environment Auditor (CEA) and subsequently become a Registered Environment Auditor (REA), which is the only capacity authorized to conduct mandatory environmental audits under the Rules. CMAs can meet the eligibility criteria through the National Certification Examination (NCE) or Recognition of Prior Learning (RPL), depending on the guidelines.

<b>CMA's Audit Responsibilities as an REA</b>	<b>Relevance of CMA Skills</b>
Calculating Environmental Compensation	CMAs' core competency in quantification, costing, and liability estimation is essential for computing with reasonable accuracy the financial penalties for non-compliance.
Verification under Green Credit Rules	CMAs are well-suited to verify and report on economic activities like afforestation and waste management to earn tradable Green Credits, an activity that requires precise measurement and economic valuation.
Auditing Resource Flows	Auditing compliance with waste management rules, which requires tracking the physical flow of materials (input vs. output) to identify wastage—a key principle of cost accounting (mass balance approach).

**2. Environmental Management Accounting (EMA) and Cost Reduction**

The Rules increase the financial risk of non-compliance (through penalties and operational stoppages), making the CMA's role in proactive internal cost control crucial for businesses.

- ⦿ *Environmental Cost Tracking*: Establishing a comprehensive Environmental Management Accounting system to accurately identify, track, and report on all environment-related costs, which often go unnoticed in traditional financial accounting. These include:
  - ▲ Cost of wasted raw materials.
  - ▲ Disposal and treatment costs (waste, effluent, emissions).
  - ▲ Taxes, fees, and regulatory costs (e.g., landfill tax, water cess).
  - ▲ Costs of non-compliance (fines, cleanup).
- ⦿ *Resource Efficiency Assessment*: Using cost analysis techniques to advise management on optimal resource use (energy, water, raw materials), identifying inefficiencies, and calculating the Return on Investment (ROI) for adopting cleaner technology or pollution control equipment.
- ⦿ *Life-Cycle Costing*: Evaluating the total environmental cost of a product or process, from raw material procurement to disposal, to making informed decisions on process redesign and product pricing.

**3. Financial and Integrated Reporting**

CMAs play a strategic role in translating environmental performance into financial value and preparing the sophisticated reports demanded by stakeholders.

- ⦿ *ESG and Integrated Reporting*: The data generated by mandatory environmental audits becomes the basis for enhanced Environmental, Social, and Governance (ESG) disclosures and Integrated Reporting (IR). CMAs plays a major role in quantifying non-financial performance metrics and integrating them with the company's financial statements.
- ⦿ *Capital Budgeting for Sustainability*: Assisting management in capital expenditure decisions for environmental projects (e.g., solar plant

installation, effluent treatment plants) by conducting feasibility studies, budgeting, and performance monitoring.

- ⊙ *Risk Management and Liability*: Quantifying potential environmental liabilities and compliance risks, allowing the company to set aside appropriate provisions and manage risk exposure based on audit findings.

### Way Forward

The Environment Audit Rules, 2025, notified by the MoEFCC, represent a significant reform in India's environmental governance. The "way forward" centres on effective implementation and addressing the practical challenges associated with this new framework, key Components could be as under: -

#### 1. *Operationalising the Environment Audit Designated Agency (EADA)*:

- ⊙ EADA, the nodal body, needs to be fully established and resource-equipped immediately.
- ⊙ Its key immediate tasks include finalising eligibility criteria and the certification process for Certified Environment Auditors (CEAs) and Registered Environment Auditors (REAs) (via examination or a Recognition of Prior Learning pathway).
- ⊙ Developing a robust, transparent, and functional online platform for the randomized assignment of REAs to projects to eliminate conflicts of interest.
- ⊙ Creating and maintaining the public register of certified auditors and audit findings.

#### 2. *Capacity Building and Training*:

- ⊙ Initiatives are required to train and certify a sufficient pool of qualified REAs to meet the audit demands of the vast Indian industrial landscape (estimated to be around 2.5 lakh industrial units).
- ⊙ Continuous capacity building and updated training for REAs on evolving environmental laws, technical standards, and integration with new frameworks like the Green Credit Rules, 2023.

- ⊙ Training for regulatory authorities (CPCB, SPCBs) on how to effectively use the audit findings for enforcement and to focus their limited resources on high-risk cases.

#### 3. *Ensuring Auditor Quality and Independence*:

- ⊙ Strict adherence to the Code of Conduct for REAs, with rigorous monitoring and disciplinary action for misconduct, to maintain the credibility of the audit system.
- ⊙ Developing clear protocols for audit methodology, sampling, analysis, and standardized reporting to ensure consistency and high quality across all audits.

#### 4. *Strengthening Enforcement and Integration*:

- ⊙ Audit findings must be directly linked to actionable penalties and remedial measures. The system needs to ensure that non-compliance detected by the REA results in swift and effective corrective action by the regulatory bodies.
- ⊙ Seamless integration of the audit reports with the functioning of the CPCB, SPCBs, and other regulatory frameworks.
- ⊙ Ensuring public disclosure of audit results and enforcement actions (as opposed to just submitting them to the government) to maximize transparency and public trust.

#### 5. *Addressing Implementation Challenges*

for MSMEs by developing mechanisms to support Micro, Small, and Medium Enterprises (MSMEs), which may struggle with the cost and administrative burden of mandatory audits. This may call for subsidised audits, simplified audit procedures, or incentive-based compliance models for smaller players.

To sum up, the way forward is to move from the notification of the rules to their effective, rigorous, and transparent implementation to achieve the stated objectives of enhancing environmental compliance and strengthening governance through stronger ESG reporting and emphasis on proactive environmental governance. **MA**