

AUDIT OF CORPORATE SOCIAL RESPONSIBILITY

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“A Corporate Social Responsibility audit aims at identifying environmental, social or governance risks faced by the organization and evaluating managerial performance in respect of those.”

INTRODUCTION
Corporate Social Responsibility (CSR) is associated with the conduct of corporations and in particular whether corporations owe a duty to stakeholders other than shareholders. While the phrase ‘Corporate Social Responsibility’ may be gaining momentum, the concept itself is not new.

Social responsibility is a major concern for management from a reputation risk perspective. Typically, reputation risk is associated with fraudulent reporting, regulatory actions against a company, or misconduct of individual officers (for example, personal tax fraud). However the scope of social responsibility has been expanding continuously to include several aspects that are perceived by the public to be the social impact of business actions.

Social responsibility is concerned with doing “the right thing” and also protecting the reputation of an organization beyond short-term considerations of profit maximization. Ethics and social responsibility are closely related and can be either an asset or a liability. An organization’s management/board members should understand social responsibility as both a public duty and a necessity of long-term organizational value.

Corporate Social Responsibility (“CSR”) is a broad term however, for the purpose of addressing the scope of a CSR Audit, CSR is about managing and taking into consideration organization’s operational, processes and behavioral impact on society and stakeholders from a broad perspective. Contrary to common belief CSR is more than basic legal compliance and is highly connected with and affects organization’s bottom line.

In order to ascertain an organizations effective CSR policy, practices and culture, the notion of auditing CSR in organizations is becoming key. However, this requires a substantial shift in the audit profession to include beyond the traditional lines of finance and information technology to wider operational practices that respond to client and professional pressures brought about by a growth in the practice of risk management.
Audits and the process of auditing as we commonly know it is focused on the organizations achievement of its stated and communicated objective; its compliance with rules, regulations and legislation; the reliability of its records and information accessible to the public or communicated to the public; the safeguard of its assets.

This does not address CSR or CSR related risks.

The risks of not paying adequate attention to CSR are clear – reputation damage, lawsuits, and government scrutiny. Internal audit should focus on these risks and assist management to identify appropriate actions. This called for a different approach to audit and in particular an audit that takes into consideration health, safety, environmental, reputational and business probity not to mention CSR governance.

CSR Audits: Special Considerations
The auditor should develop a general understanding of the social responsibility issues that affect their organization and industry. The challenge of developing a socially responsible organization is creating the balance between profitability and other public goods. Management must reconcile these sometimes contrary needs. On one hand, management is responsible to shareholders and investors to deliver a financial return. Conversely, management is responsible to the society that invests the modern corporation with control over its resources and employees.

Developing a CSR Audit Program
A CSR audit program can cover all or any of the following risks:
- Effectiveness of the operating framework for CSR implementation
- Effectiveness of implementation of specific, large CSR projects
- Adequacy of internal control and review mechanisms
- Reliability of measures of performance
- Management of risks associated with external factors like regulatory compliance, management of potential adverse NGO attention, etc

An organization’s social responsibility initiative may include many component programs addressing both internal and external considerations including:

1. Donating Funds & Resources – management should ensure that donations are carefully reviewed and based upon sound judgment. Although this is a very common type of community involvement the timing, amount of funds, and type of gifts should be considered. Some companies allow personnel to volunteer in the community on paid time.
2. Project Implementation – companies often embark on large CSR projects that are aimed at delivering high Brand or business impact. These projects may typically run over a long time horizon and involve significant investment of time and resources, both monetary and people. Setting of clear objectives, adequate resourcing, effective monitoring and independent review of project performance are critical to success.
3. Communications – establish effective plans to communicate to employees and the public to describe the organizations actions and the related impact to the community. Assess public relations and the adequacy of the PR function in addressing social issues.
4. Social Responsibility Analysis – organizations can allocate dedicated resources to identify, evaluate, and research social responsibility issues. Establishing liaisons with community groups and working with those responsible for public welfare or the environment will help the organization understand and address appropriate issues.
5. **Managerial Policies & Decision Support** – all organizational levels and objectives should incorporate social responsibility plans. These intentions may be included in policy and procedures, statements to the public, marketing campaigns, and made transparent to the public. Management decisions should incorporate social responsibility considerations especially those that directly impact the community. For example, operations or plants that create noise, traffic, or pollution, or that impinge on any part of the community should include a social responsibility component.

6. **Research & Development** – organizations can conduct research into alternative methods or approaches to operations or products that reduce or remove undesirable impacts or byproducts. For example, manufacturing companies can support recycling programs for printer ink cartridges and other products to ensure proper disposal or reuse.

7. **Government Program Participation** – companies collaborate with government agencies to provide research on issues often along with their industry competitors. Organizations that better understand the problems at issue and the governments responsibilities can help ensure they are part of the solution rather than part of the problem. Companies can also ensure related legislation and regulatory mandates are sound, effective, and incorporate common interests.

![CSR: General Concerns for Audit Coverage](image)

CSR programs can operate at different levels according to the policy adopted by the organization. At the basic level, organizations have some level of community awareness, public service, or charitable contributions as part of good corporate citizenship. Examples include scholarships for students, adoption of parks or highways, sponsorship of charity events, and gifts to the arts. Such initiatives are also subject to internal controls and should be considered for periodic review of their accounting and oversight processes.

At a more sophistication level, CSR activities cover a variety of additional issues including:

- **Protection of Human Rights** – denial or prevention of legal or social rights of workers. Examples include fair wages for factory workers with reasonable work conditions, including restrictions on child labor.

- **Destruction of Natural Habitat or Resources** – depletion of natural habitats, wildlife, and land surfaces. Examples include strip mining, protection of endangered species, deforestation and pollution.

- **Free Market Development** – the mega corporations that significantly impact developing market economies are under fire regarding fair trade policies. Less developed countries and their marketplace communities should have opportunities for healthy economic growth that do not exacerbate wealth disparities or exploit people. Examples include exploitation of poor country labor or agricultural markets.

At the highest level, the CSR strategy is closely integrated with the business objectives, creating a ‘virtuous circle’ for all the stakeholders. This is a highly sustainable model as the success of the business is integrated with the CSR initiatives and there is high commitment from the business at all levels.

![The CSR audit is a tool for decision making and for strategic management.](image)

Just like a financial audit, there are various CSR standards against which a CSR Audit can take place such as:
- Global Compact
- Global Reporting Initiative
- Good Business Framework
These standards although vary in style and depth cover the basics of CSR and enable organizations to be audited against them. However, for the purpose of being generic, we will address organizations different approaches to CSR and how a CSR audit can facilitate a better understanding of an organization’s:
- CSR goals and objectives;
- CSR practices, policies and culture; and
- Approach to CSR related issues with respect to its internal decision making process;

Traditionally organizations prime focus is to do business. With the increased hype of CSR, organizations started to undertake certain CSR related activities whereby they undertake responsible activities independent of their business operations, their impact on society and how they affect society or can be affected by society at large.

This evolved into a more integrated approach of CSR in organizations whereby organizations started to do what they do but doing it in a more responsible manner i.e. embedding societal considerations in their decision making process etc. A higher evolution finally led organizations to doing responsible things in a responsible manner a closer definition to what we now call today “sustainability”. Its no longer simply a matter of doing good things to society, or operating ones organization in a responsible manner but a further step of integrating CSR with the organization’s objectives, creating a ‘virtuous circle’ for all the stakeholders.

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**CSR issues that a CSR Audit should cover?**

1. **Human Rights:** Fundamental Human Rights, Freedom of association and Collective bargaining, Nondiscrimination, Forced labor, Child labor
2. **Business Behavior:** Relations with clients, suppliers and sub-contractors, Prevention of corruption and anti-competitive practices
3. **Human Resources:** Labor relations, Working conditions, health and safety, career development and training, Remuneration system
4. **Corporate Governance:** Board of Directors, Audit and internal controls, Treatment of shareholders, Executive remuneration
5. **Environment**: Incorporation of environmental considerations into the manufacturing and distribution of products, and into their use and disposal

6. **Community Involvement**: Impacts on local communities, contribution to social and economic development, General interest causes.

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