



IPPF – Practice Guide



EVALUATING CORPORATE SOCIAL RESPONSIBILITY/SUSTAINABLE DEVELOPMENT

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Introduction

Organizations worldwide are adopting mission statements and governance activities related to corporate social responsibility (CSR) and sustainable development. Customers, employees, and public stakeholders have increasing expectations for organizations to act in responsible and sustainable ways, and public scrutiny of these activities is rising. This growing attention extends beyond the organization to its partners and suppliers. Increasing regulations relating to the environment and the workplace are leading to new practices and management systems. In response, organizations are developing performance targets, measurement systems, and reporting systems related to CSR and sustainable development strategies.

Chief audit executives (CAEs) should understand the various ways in which they can support management relating to CSR and sustainable development. An internal audit activity that conforms to the International Professional Practices Framework (IPPF) is qualified to audit and provide assurance to the board and management on CSR and sustainable development programs and reporting.¹ This guide is designed to assist in planning and implementing related internal audit strategies and programs.

Organizations adopt terminology (e.g., CSR, sustainable development, and corporate citizenship) that best fits within the context of their operations and that is consistent with the strategies adopted. For the purposes of this guide, CSR refers to social responsibility, sustainable development, and corporate citizenship.

Executive Summary

CSR presents significant risks and opportunities for organizations. Stakeholders expect boards and management to accept responsibility and implement strategies and controls to manage their impact on society and the environment, to engage stakeholders in their endeavors, and to inform the public about their results. The proliferation of regulation and voluntary standards has made CSR management a complex endeavor.

Internal auditors should understand the risks and controls related to CSR objectives. Where appropriate, the CAE should plan to audit, facilitate control self-assessments, verify results, and consult on the various subjects. Internal auditors should maintain the skills and knowledge necessary to understand and evaluate the governance, risks, and controls of CSR strategies.

1. Auditors that conform to the Performance and Program Standards for the Professional Practice of Environmental, Health and Safety Auditing (Board of Environmental Health and Safety Auditor Certifications) may also be qualified.

CSR Definitions

Governmental and nongovernmental organizations have published many definitions of CSR, including:

- CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.²
- Generally, CSR is understood to be the way firms integrate social, environmental, and economic concerns into their values, culture, decision-making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth, and improve society.³

Some organizations focus on economic and CSR objectives, where the environment is included as one element of CSR, along with ethics, transparency, health and safety, corporate governance, human rights, and community investment. Other organizations follow a Triple Bottom Line reporting strategy, which covers three measures of success: economic, environmental, and social responsibility. This theme is prevalent in resource companies, such as mining, forestry and oil, where the environment has been an important focus of advocates, governments, and communities. These organizations often refer to their objectives as sustainable development:

- For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining, and enhancing the human and natural resources that will be needed in the future.⁴

Responsibility for CSR

The board⁵ has overall responsibility for the effectiveness of governance, risk management, and internal control processes associated with CSR.

Management is responsible for ensuring that CSR objectives are established, risks are managed, performance is measured, and activities are appropriately monitored and reported. There may be a CSR executive responsible for coordinating these activities, or this responsibility may be allocated to executives responsible for each individual function (such as a chief ethics officer, vice president of environment, health and safety, general manager of human resources, and director of community and public affairs).

If the organization has limited resources to spend on CSR, should those resources be directed toward feeding starving children, educating an aboriginal workforce, or starting a recycle program? All are worthy causes. The challenge management faces is ensuring that CSR activities throughout the organization are coordinated and aligned with strategic initiatives and principles, with appropriate risk/reward decisions being made. CSR programs for charity, product and worker safety, pollution, and human rights often elicit emotional and personal responses, and managers can be influenced by such responses to support personal objectives. Management is responsible for ensuring that the organization's CSR principles are communicated, understood, and integrated into decision-making processes.

Generally, CSR activities are pervasive throughout the organization; thus, every employee has a responsibility for ensuring the success of CSR objectives.

2. World Business Council for Sustainable Development.

3. Government of Canada.

4. This definition captures the spirit of the concept as originally proposed by the World Commission on Environment and Development and is substantially similar to the definition used by the World Business Council for Sustainable Development.

5. In this guide, "board" will be used to refer to the board of directors or similar oversight group and to committees that have been delegated specific CSR responsibilities.

Risks

Organizations are exposed to a variety of risks associated with CSR activities. The board and management are responsible for performing a risk assessment and determining what is important to their organization and the controls they will implement to manage those risks.

The CAE should understand these risks and use that knowledge when considering CSR activities in the audit universe, audit plan, and audit approaches. Internal auditors should understand these risks to help them develop appropriate audit procedures.

Reputation

The organization's brand or reputation could be damaged due to violations of law or principles, errors or omissions in disclosed CSR information, under-performance compared with objectives/targets, or the appearance of indifference to social issues. If activists believe an organization is being unresponsive to their concerns, they may become shareholders to introduce resolutions relating to their CSR agenda. Organizations have the opportunity to enhance their reputation by behaving in a socially responsible manner and involving stakeholders in decisions that affect them.⁶

Compliance

Organizations may fail to comply due to the extent, complexity, and volume of regulations relating to the environment, health and safety, employment, governance, political contributions, conflict of interest, fraud, etc. Compliance risk also arises from contractual obligations with third parties, such as customers, unions, or employees, and from voluntary adoption of standards. Compliance risk increases for organizations operating in multiple countries.

Liability

Liability risk exists when contracting for CSR terms and conditions and ensuring third-party compliance. Activists

or specific classes/special interest groups may take legal action for alleged harm done by the organization

Operational

Risk arises from the CSR “pressure points” for the organization's manufacturing processes, products, services and impact on the environment. Other examples of potential risk scenarios include: under-performance of other targets due to inappropriate CSR strategies, or over-emphasis on CSR strategies; failure to integrate CSR objectives into processes, or to educate staff appropriately; failure to develop well-controlled systems for CSR initiatives; risk associated with reporting CSR activities and results (e.g., inaccurate or incomplete information and poor communication and reporting strategies). In addition, international organizations may find it challenging to apply the same standard in multiple countries.

Stock Market

Organizations may lose investors, or limit their pool of investors, if they do not qualify for Socially Responsible Investment or similar funds.

Employment Market

Employees want to work for organizations that respect their rights, have a culture of integrity, and commit to social and community concerns.

Sales Market

Customers might boycott products or services for environmental or social issues. Organizations have an opportunity to increase sales and advertising if they are recognized by “socially responsible consumer” groups.

External Business Relationships

Customers, suppliers, or partners could violate CSR terms and conditions, principles, or laws, yet the organization could be included as a wrongdoer by association. Developing and monitoring the controls over and within external business relationships may be a challenge for some organizations.⁷

6. For more information about stakeholder engagement, see Appendix C.

7. Refer to The IIA's Practice Guide Auditing External Business Relationships for additional information.

CSR Business Activities

CSR business activities generally include:

1. Determining and communicating policies and procedures for areas including corporate governance, business ethics, human resources and employment, supply chain management, stakeholder relations, donations and political contributions, the environment, and health and wellness.
2. Setting objectives, performance targets, and strategies, such as:
 - Reduce carbon emissions.
 - Comply with laws and regulations.
 - Donate a percentage of net profits to charitable organizations.
 - Increase indigenous workforce.
 - Reduce safety incidents.
 - Reduce waste.
 - Create a culture of transparency.
 - Facilitate employee volunteerism.
 - Become the employer of choice and extend the ethical culture throughout the supply chain.
3. Communicating and embedding CSR principles and controls into business decision making processes.
 - CSR risks are considered as part of project approvals.
 - Culture is based on making the right decisions for the right reasons.
 - Life-cycle value assessments are used to evaluate impacts of products or operations.
4. Tracking, measuring performance of, analyzing trends around, and benchmarking activities such as:
 - Emissions.
 - Health and safety incidents.
 - Fraud incidents.
 - Donation and sponsorship amounts.
 - Economic benefits to specified regions.
 - Employee satisfaction.
 - Noncompliance incidents.
 - Commitments to stakeholders, reclamation activity.
5. Stakeholder engagement, including:⁸
 - Advisory or focus groups as part of research and development.
 - Involvement in policy development and feedback.
 - Satisfaction surveys.
 - Complaint management processes (including protection of complainants from retaliation or intimidation).
6. Auditing:
 - Disclosures in public reports.
 - Internal controls and management systems.
 - Contractual compliance with CSR terms and conditions (both internally and with external business relationships).
7. Reporting results internally and externally, along with governance processes for such disclosures.

8. Refer to Appendix C for additional information regarding stakeholder theory and engagement.

CSR Reporting

Many organizations report their CSR results to the public. Reports help audiences, such as investors, employees, suppliers, and customers make informed decisions about their involvement with the organization. Each organization makes a business decision as to the cost/benefits of producing such information and what specific information to include.

Reporting methods can include publishing a standalone CSR report, integrating CSR information into the annual report, and preparing select CSR information booklets on specific topics or events for public distribution. Distribution formats include: Web pages, booklets, press releases, regulatory filings, handouts and presentations at public stakeholder meetings, videos, infomercials, and commercials.

There are several laws that require organizations in particular sectors to publicly disclose certain CSR practices and activities, especially for corporate governance and environmental compliance. For example:

- In Canada, banks and federally incorporated trust and insurance firms with more than \$1 billion in equity are required by federal law to produce annual public accountability statements outlining their contributions to the economy and society.
- In the United Kingdom, legislation requires pension fund trustees to publish a comment in their investment statements on the extent to which their investment policies address social, ethical, and environmental issues.
- In France, laws require companies to report on the social and environmental impacts of their activities.

Organizations reporting their CSR results face challenges in choosing which subjects to report, developing and presenting performance metrics, and comparability of the information. Organizations once faced these challenges

when presenting financial information; however, years of developing accounting and reporting standards has minimized this. For CSR information, there are organizations developing voluntary reporting standards, such as the Global Reporting Initiative, but comparability will continue to be a challenge until standards are met by most organizations worldwide. Also influencing the reporting process are international not-for-profit organizations that benchmark CSR reports, giving awards to those that best meet their evaluation criteria.

To meet stakeholder demands for accountability, and to reduce the appearance of the report being viewed as a marketing ploy, many organizations are using verification and assurance processes for all or part of the reports.⁹ Organizations have used internal reviewers (including internal auditors), independent third parties, community or expert advisory panels, or a combination of these to perform the assurance process. Third parties include external audit firms, subject matter experts in environmental sciences and human rights, and other relevant consultants. There are also international not-for-profit organizations, such as AccountAbility, that produce standards (AA1000) for assurance of CSR reports to help strengthen the assurance process. Professional accounting organizations also have published standards for assurance of nonfinancial information, which includes CSR information. Organizations that need to satisfy many stakeholders regarding their compliance with CSR terms and conditions may choose to become certified as meeting ISO or SA8000 standards.¹⁰

Another challenge to credibility and transparency is that organizations are expected to present the negative as well as the positive, the failures as well as the successes. For some organizations, this may represent a culture shift, and it may also introduce liability risk.

9. Consider evaluating the use of CSR issues in advertising strategies during an operational audit of marketing.

10. Social Accountability International, a not-for-profit organization, has established SA8000 as an international standard for improving working conditions.

Approaches to Evaluating CSR

Definition of *internal auditing*:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization **accomplish its objectives** by bringing a systematic, disciplined approach **to evaluate** and improve the effectiveness of **risk management, control, and governance processes**.*¹¹

As part of the risk assessment and audit planning process, the CAE considers the CSR risks and whether to include all or part of the processes in its audit universe and audit plans. The CAE also should be aware of CSR issues in order to respond to any special requests by the board or senior management.

Auditing

The internal audit activity may choose to evaluate the CSR programs as a whole and determine whether the organization has adequate controls to achieve its CSR objectives. This option would likely require a significant allocation of resources because of the broad scope of the subject. Such an audit is not likely to be done to develop the first opinion on CSR controls; rather the CAE would develop a one- to three-year plan to obtain sufficient and reliable information about the various elements of CSR within the organization.

There are many approaches to auditing CSR controls, including:

1. Separate audits of each element of CSR that are further refined into audits of these subjects at the corporate office, subsidiaries, and with external business relationships. Management processes can be evaluated based on internal control or quality frameworks,

such as COSO,¹² ISO,¹³ etc., or compliance with customer expectations (contractual obligations). Typical CSR elements include:

- Governance.
- Community investment.
- Environment.
- Ethics.
- Health, safety, and security.
- Transparency.
- Working conditions and human rights.

2. Audits of CSR programs related to each significant stakeholder group affected by CSR activities that are further refined into audits of these subjects at the corporate office, subsidiaries, and with external business relationships. Stakeholders could include:

- Customers.
- Employees and their families.
- The environment.
- Neighboring communities.
- Shareholders.
- Suppliers.

Some of these stakeholder groups could include non-governmental organizations (NGOs) and activist groups that represent the stakeholders or specific interests.

3. Bundling of subjects, such as the:

- Workplace: employer of choice, health and safety, environmental management practices, diversity and equality, training and development, ethics, governance, and human rights.
- Marketplace: product quality and safety, responsible advertising and sales, responsible supply chain

11. Emphasis added for this paper.

12. Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control–Integrated Framework*, www.coso.org.

13. International Organization for Standardization, www.iso.org.

management, product development and testing practices, product stewardship, disclosure practices, and privacy.

- Environment: responsible air, water, land, waste, animal, and energy use and regulatory compliance.
 - Community: philanthropy, local economic support, capacity building, volunteerism, and stakeholder engagement.
4. Audits of the internal controls over risk management, recording, measuring, and reporting of CSR activities within each department or function that is covered in the audit plan. For example, there would be a standard audit program section with audit steps that cover the same CSR tests in every audit performed. At the end of 10 audits, the CAE would have 10 sample results of CSR activities on which to base an overall conclusion of internal control operating effectiveness.
 5. Assurance audits of public disclosures of financial and nonfinancial information related to CSR or any of the individual CSR elements. Most organizations with stated CSR objectives provide public information about their approach and results. These audits could be undertaken with the CAE as project manager, coordinating internal and external resources as required, or an internal auditor could be assigned to an assurance team coordinated by another senior person within the organization.
 6. Audits of third parties for contractual compliance, including compliance with CSR terms and conditions. A proactive role may also be taken. For example, internal auditors could perform a review as part of a supplier pre-qualification process.

Upon completion of the CSR-related audit programs, an opinion of the overall CSR controls can be developed.

Facilitating

The internal audit activity may facilitate a management self-assessment of CSR controls and results. This process

would be developed based on a risk assessment and results in action items for control improvements.

Consulting

The internal audit activity may consult on project design and implementation for CSR programs and reports or serve as an adviser on CSR governance, risk management, and internal controls.

Audit Considerations

Use of Audit Opinion

Senior management or the board may choose to publicly state that it relies on its internal controls to produce reliable information for public reporting. Management might also ask the CAE to provide a statement for the CSR report, saying that the internal audit activity has provided assurance on the information contained in the report. The CAE should ensure that the elements of the Formulating and Expressing Internal Audit Opinions Practice Guide have been reviewed before issuing an opinion about the organization's CSR program. Caution should be taken to manage liability associated with the opinion, if it is published.

Independence and Objectivity

Often, the internal audit activity may have an operating role within the CSR processes, giving rise to concerns about its independence and objectivity. For example, internal auditing may be responsible for investigations and tracking results for allegations of fraud or violations of law. Information about fraud and noncompliance investigations may form part of the CSR program and reports to the public. This would put the auditors in the position of evaluating and reporting on their own activities, which threatens their independence and objectivity. However, this could be overcome by using independent auditors to assess this portion of the CSR program and reports.

Skills and Body of Knowledge

The IPPF provides authoritative guidance for the performance of internal auditing, including proficiency and due

professional care requirements. If the internal audit activity conforms to the IPPF, then it is qualified to undertake the roles listed above.

Any internal audit activity that collectively lacks the appropriate skills and knowledge should not undertake an internal audit, facilitation, or consulting engagement. Specific CSR competencies could include expertise in regulations, management systems and best practices relating to the environment,¹⁴ health and wellness, safety, science and engineering, ethics, community investment, employment, human rights, working conditions, and governance. Language and other communication skills are also important considerations when discussing sensitive issues, such as working conditions or ethics violations, and for designing surveys.

If the internal audit activity is involved in facilitating a control self-assessment, facilitation skills are critical. Auditors who have the IIA's Certification in Control Self-Assessment designation can be an asset to this process.

Resources

The number of auditors and skills required depends on the audit approach.

Teaming internal auditors with internal subject matter experts is useful; it provides an opportunity for the auditors to learn the subject, and for other employees to learn more about a logical approach to evaluating process effectiveness and internal controls. The subject matter experts should not be members of the area being audited. They could be employees in similar departments of subsidiaries or other divisions.

If the organization hires an external service provider to provide assurance on CSR reports, the CAE should consider the benefits of loaning a member to the assurance team.

Such benefits can include internal auditor training opportunities, the lessons learned on the project stay within the organization, and the internal auditor can assist the team in accessing information more efficiently due to his or her knowledge of the organization.

The organization should evaluate the pros and cons of using nongovernmental organization (NGO) members on an audit or assurance team, including: more time will be required to train external parties on the audit process; external parties might not be bound by confidentiality standards; by their nature, NGOs have special interests, and their representatives will not be unbiased and objective and may not prioritize issues the same as the organization; a report that includes a positive statement from an NGO is deemed to be more credible; new ideas and fresh observers might help the organization better understand the CSR issues and activities; the NGO would gain a better understanding of the organization.

CSR Maturity Model

The CAE considers the organization's CSR maturity level at the time of the internal audit, and the level to which the organization hopes to progress. This information will help the auditor frame recommendations as audit findings or as ideas to help move the organization toward its goal.

A sample maturity scale could include:

1. Senior management and the board have not initiated any CSR objectives or strategies.
2. The CSR strategy is "to comply with laws and contractual commitments."
3. Ad hoc recognition of specific CSR risks and strategies to meet objectives exists in some divisions of the organization. The organization's goal is to exceed compliance requirements. Reporting is selective.

14. Such as those having the Certified Professional Environmental Auditor (CPEA) designation.

4. A set of integrated and managed CSR strategies and performance measures — reported to the public — with governance processes is in place.
5. CSR is a primary feature of the organization's mission, principles, and performance measures. Formal reports are produced for the public, stakeholder engagement processes are in place, and CSR factors are embedded into business decision-making processes throughout the organization, including at board levels.

Internal Audit Program Development (Considerations)

The following discussion (and information contained in Appendices A and B) include concepts to help internal auditors think through various subjects when developing the audit program. Because the audit scope and program are based on a risk assessment for the organization, not all of the concepts within this guidance will be relevant.

Consider the proliferation of CSR information that the organization produces. Are the messages consistent and current in public reports, speeches, and handouts/presentation materials and on the organization's Web sites? How is disclosure and updating controlled? Are the messages relevant to the organization's mission, goals, objectives, and commitments?

Has the organization made a decision to report information consistent with reporting standards, such as the Global Reporting Initiative? Can the information be compared with the organization's competitors or industry peers?

How are CSR strategies and priorities established and communicated? How are they integrated into decision making and approval processes (e.g., budget, appropriations, mergers, acquisitions, and joint ventures, performance

evaluation and bonuses, leadership training, and stakeholder relations)? What takes precedence when there are competing objectives?

Is the organizational structure of CSR responsibilities and authority documented for all elements? Are responsible positions staffed with experienced and qualified individuals?

Is the organization signatory to voluntary standards of performance? Why or why not? Were the standards adopted by management, or by the board? How are they integrated into management practices? How is compliance monitored in the organization? Standards include:

- AccountAbility AA1000 — principle-based standards that provide the basis for improving the sustainability performance of organizations.
- Amnesty International — focused on protecting and championing human rights worldwide.
- CERES Principles — 10 principles covering major environmental concerns.
- Clean Clothes Campaign (Code of labor) — intended to improve working conditions in the garment and sportswear industries.
- Electronic Industry Code of Conduct (EICC) — standards for labor, health, safety, and the environment in manufacturing and throughout the supply chain.
- European Commission's Eco-management and Audit Scheme (EMAS) — public reporting on environmental performance.
- Eurosif Transparency Guidelines.
- Ethical Trading Initiative — strives to improve the lives of workers in global supply chains.
- Base Code — best practices in codes of conduct.
- Fair Labor Association (FLA) — seeks to improve working conditions.

- Workplace code of conduct.
- Global Reporting Initiative 2002 — introduces international reporting guidelines.
 - Global Sullivan Principles of Social Responsibility — principles that encourage companies to support economic, social, and political justice.
 - Greenhouse Gas Protocol Initiative, International Chamber of Commerce.
- Business charter for sustainable development.
 - Green-e — independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.
 - Imagine Canada — Advancing knowledge and relationships to foster effective and sustainable charitable and nonprofit organizations.
- Ethical Program — fundraising and financial accountability standards.
- Caring Company Program — providing guidance and standards that help members become better corporate citizens.
 - Interfaith Center on Corporate Responsibility (ICCR).
 - International Organization for Standardization (ISO) 14000 — a family of standards for creating environmental management systems.
 - International Labor Organization Conventions (ILO Tripartite Convention) — 28 recommendations concerning multinational enterprises and social policy.
 - Kyoto Protocol.
 - OECD Guidelines for Multinational Enterprises — addressing a comprehensive range of responsibility issues.
- Natural Step framework and principles.
- Convention for combating bribery.
- Principles of corporate governance.
 - Responsible Care initiative (chemical industry).

- Rio Declaration on Environment and Development — the right of people to development. Signatories have the responsibility to safeguard the environment.
- Social Accountability 8000 — a global standard to make workplaces more humane.
- United Nations.
- Universal Declaration of Human Rights and related instruments.
- UN Global Compact.
- Climate Neutral Network.
- Principles for Responsible Investing.
 - Voluntary Principles on Security and Human Rights — principles on human rights and security in mining and petroleum industries.
 - Worldwide Responsible Apparel Production (WRAP) — 12 standards of labor practices, factory conditions, and environmental and customs compliance.

How does the organization manage compliance with local and international laws?

Does your organization meet standards required for inclusion in environmental or social investment funds? Why or why not? Screening agencies include:

- Dow Jones Sustainability World Index (DJSI).
- Morningstar Socially Responsible Investment Index.
- FTSE 4 Good Global Indexes.
- EIRiS – Ethical investment Research Services.
- Jantzi Social Index.

Can the CSR — especially environmental or human rights — activities of external business relationships impact the organization's reputation? If yes, then contracts should include CSR performance terms and conditions, and compliance should be tested. The internal audit activity may be involved in such tests or receive reports on results of tests done by others.

Can the CSR activities of customers impact the organization's reputation? Would the organization refrain from selling products to organizations with irresponsible or unsustainable practices? Does it provide programs to encourage or facilitate customers to be responsible with its products?

How well controlled are the mechanisms put in place for capturing CSR information and developing and reporting performance metrics? What spreadsheets are used, and are there adequate spreadsheet controls to ensure complete, accurate, and timely information?

If your organization publishes a CSR report:

- Is the disclosure process for CSR results as rigorous as for financial reporting?
- Does it contain clear messages that are aligned with the company's vision and commitments?
- Does it contain balanced reporting (i.e., the good with the bad), performance measures, and trends?
- Does it help the reader understand the issues and the organization's accountabilities?
- How does the organization's CSR program compare with others?
 - Has it competed for awards, such as the Asian CSR Awards, the Arabian CSR Awards, China CSR Awards, and the International Community Service Award given by the U.S. Chamber of Commerce Business Civic Leadership Center? Has it received recognition in other benchmarking programs, such as the Human Rights Campaign's Corporate Equality Index, *Institutional Investors'* "Top Shareholder-Friendly Companies, Global Challenges Index, Pegasus Corporate Social Responsibility Awards, TERI Corporate Awards, or *Ethisphere* magazine?
 - How good is the CSR report? Has it been benchmarked by independent organizations such as PR News' CSR Awards, Carbon Disclosure Leadership Index, CERES, or Stratos Inc.?

- Has the organization asked for feedback? What did the feedback say, and what was the organization's response?

Appendix A – Auditing by Element

With this audit approach consider how compliance with laws, regulations, and contractual obligations is managed for all elements.

Governance

- Do board members have sufficient and relevant information to fulfill their roles and responsibilities? Board terms of reference, agendas, and minutes are sources of information about board governance and oversight responsibilities and monitoring of CSR. The board information package management sends before meetings shows the type of information provided for board members to monitor CSR activities. Do budgets approved by the board have sufficient resources allocated to achieve CSR objectives?
- Do the board and management report reliable financial and nonfinancial information to stakeholders?

Ethics

- Anti-corruption is the most important ethical issue in a CSR context. Is anti-corruption included in the organization's risk assessment, code of conduct, and policies?
- Is there a reporting system for stakeholders to report concerns or allegations of ethics violations? Are there appropriate protection systems in place for those who raise concerns?
- Are there investigation standards or protocols in place to gather evidence, manage cases, and protect the rights of parties involved in the investigation? Is the process credible? Are root cause analysis and improvement of controls part of the resolution process? Is disciplinary action appropriate and consistent?

- Is there a process for disclosure of conflicts of interest? Are acceptance or constraints documented and conditions monitored?
- What methods exist to provide ethics advice, training, and awareness to help stakeholders understand the organizations principles, processes, and practical application of the Code of Conduct?

Are ethics program performance measures and metrics maintained and reported? Are benchmarking and trend analysis performed and reported to senior management and the board?

Environment

- Are social and environmental impact assessments performed:
 - As part of risk management programs?
 - As part of investment decision-making and approval processes?
 - Do they include conflict risk?¹⁵
- Are life cycle value assessments done for assets and product development?
- Are green or socially responsible procurement processes in place? How are they monitored?
- Are incidents reported, managed, and resolved appropriately?
- Are environmental program performance measures and metrics maintained and reported? Are benchmarking and trend analysis also performed and reported to senior management and the board?
- Are results of audits — internal, regulator, and external — reviewed and commitments monitored and tracked to completion?
- Are reduce, reuse, and recycle concepts integrated into operations?

15. Conflict risk exists when war, civil unrest, labor unrest, or activism could impede achievement of the organization's goals and objectives, including CSR goals. In a conflict risk impact assessment an organization analyzes the characteristics of a proposed investment and the potential impacts (negative and positive, intended and unintended) it may have on tensions in the region or community.

- Do risk assessments consider air (greenhouse gas and other emissions, climate change, and carbon footprint), water (use and effluent), land (reclamation, recreational spaces, garbage and disposal of hazardous wastes, conservancy, and stewardship), and animals (product testing, ecosystems, and biodiversity)?
- Do environmental emergency plans exist? Do these plans balance privacy of personal information with access to information for employees and the community?
- Does the organization calculate its carbon footprint and does it have offset programs in place? If so, are calculations accurate and complete, and are the strategies effective?

Transparency

- Does the organization manage stakeholder information appropriately, such as balancing privacy of personal information with access to information?
- Is accountability a clearly stated principle, and is it demonstrated by balanced reporting of the failures as well as successes?
- Are there effective disclosure controls to ensure fair, consistent, and timely reporting?
- Does the organization follow appropriate accounting standards?
- Do stakeholder engagement policies and practices exist?
- Are CSR related policies available to the public (e.g., on the Web site)?
- Is there a crisis management plan that includes communication with stakeholders?

Health, Safety, and Security

- Are health and safety risk assessments performed as part of investment decision-making, product development, and approval processes? Do they include conflict risk and workplace violence?
- Are health and safety management programs included in procurement processes? How are they monitored?

- Are incidents reported, communicated, managed, and resolved appropriately? Are the results of incident investigations and resolution appropriately reported with the recognition of personal information protection?
- Are health and safety program performance measures and metrics maintained and reported? Are benchmarking and trend analysis also performed and reported to senior management and the board?
- Are results of audits — internal, regulators, and external — reviewed and commitments monitored and tracked to completion?
- Are stakeholders provided sufficient information to make informed decisions about health and safety risks?
- Are stakeholders provided sufficient training and equipment to work safely?
- Are product safety (during product life cycle) and recall programs in place?
- Is there a comprehensive product stewardship program in place to evaluate and minimize the risks of products from cradle to grave (life cycle value assessment)?

Human Rights and Work Conditions

- Does compensation consider fair pay, living wages, and job opportunities?
- Does the organization have a security program, and has it considered human rights when developing and implementing security measures, especially in conflict regions?
- Are there effective policies and programs to prevent and manage discrimination and harassment?
- What labor standards are in place (child labor, forced labor, working hours, employment equity, and diversity)?
- Does the organization accept freedom of association and the right to collective bargaining for employees?
- Is there a conflict risk and impact assessment? How is conflict managed? Is there a crises management plan?

- Is there a complaint management system for issues to be reported, investigated, and resolved?
- Are there socially responsible procurement practices? If so, how are they monitored?

Community Investment

- What philanthropy (donations and charitable giving) practices are in place, and how are decisions made? An example would be adopting voluntary “giving” standards, (e.g., the Imagine program in Canada, where signatories donate 1 percent of profits each year).
- Have the cost and benefits of foundations been considered (e.g., tax benefits, focused giving)?
- Has the organization distinguished the cost/benefits of sponsorships compared with philanthropy?
- Does the organization encourage volunteerism? What programs are in place?
- Does the organization facilitate employee or customer philanthropy, or match employee or customer philanthropy?
- Are social and environmental impact assessments performed? How are community stakeholders engaged in these assessments?
- Is there a complaint management system for the community to report issues or concerns? Are the complaints managed and resolved effectively?
- Are there quotas or similar efforts to support local, indigenous, or special interest suppliers?
- Have strategic partnerships been established within the community?
- How does the organization contribute to local economic development (e.g., purchasing in the local, regional markets; local education and training to reduce unemployment; and supporting infrastructure that the presence of the organization may stress)?
- How are community investment strategies measured, monitored, and evaluated? By whom?

Appendix B – Auditing by Stakeholder Group

When using this audit approach consider how compliance with laws, regulations and contractual obligations is managed for all elements.

Employees and Their Families

- Volunteerism.
- Facilitation of employee or customer philanthropy, or matching employee or customer philanthropy.
- Health, safety, and security in the workplace and at home.
- Fair and prompt payment, living wages, and job opportunities.
- Discrimination and harassment.
- Labor standards (child labor, forced labor, working hours, and employment equity and diversity).
- Freedom of association and the right to collective bargaining.
- Privacy of personal information; access to information.
- Involvement of, and respect for, indigenous people.
- Conflict risk and impact assessment methodology.
- Complaint management systems.
- Alternatives to layoffs and downsizing.
- A clear business model for outsourcing work.
- Availability of a resource or referral for confidential counseling.
- Employee satisfaction.
- Religion in the workplace.

The Environment

(See Appendix A – Environment)

- Environmental stakeholder engagement/Nongovernmental organization (NGO) engagement.

Customers

- Facilitation of employee and/or customer philanthropy, or matching employee or customer philanthropy.
- Product safety and recall processes.
- Privacy of personal information; access to information.
- Discrimination and harassment.
- Involvement of, and respect for, indigenous people.
- Fair and image-appropriate advertising (transparency and honesty).
- Anti-corruption (fair competition, bribery, and conflict of interest).
- Complaint management system; customer satisfaction.

Suppliers

- Fair rates and payment terms.
- Local capability building programs.
- Privacy of personal information; access to information.
- Discrimination and harassment.
- Involvement of, and respect for, indigenous people.
- Anti-corruption (bribery, conflict of interest, and fair competition).
- Complaint management system; supplier satisfaction.
- Incorporation of social, health, safety, and environmental values into purchasing decisions.
- Supplier audits, including review of CSR terms and conditions.

Neighboring Communities

- Philanthropy (donations and charitable giving).
- Safe operations and emergency response programs.
- Community relations, community satisfaction.
- Local capability programs.
 - Partnering to build skills and cost effectiveness with local businesses.
- Local economic support programs.
- Privacy of personal information; access to information.
- Involvement of, and respect for, indigenous people.
- Conflict risk and impact assessment methodology.
- Complaint management system.
- Community quality of life projects.
 - Striving to balance the impacts of the business and create communities where the employees and their neighbors are happy to live. This could include parks, charitable giving campaigns, etc.
- Community education.

Shareholders and Investors

- Optimize effects of donations and sponsorships.
 - Tax effectiveness, compliance with laws.
 - Branding opportunities.
- Privacy of personal information; access to information.
- Accountability and transparency.
- Disclosure controls — to the public and to investors.
- Compliance with securities regulations, including good governance.
- Long-term sustainability strategies.
- Compliance with accounting standards.
- Shareholder rights.
- Anti-corruption (bribery, conflict of interest, misrepresentation, and compliance).

Appendix C – Stakeholder Theory

In the traditional view of the firm — the shareholder view (the only one recognized in business law in most countries) — the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first to increase value for them.

In older input-output models of the corporation, the firm converts the inputs of investors, employees, and suppliers into usable (salable) outputs that customers buy, thereby returning some capital benefit to the firm. By this model, firms only address the needs and wishes of those four parties: investors, employees, suppliers, and customers.

However, stakeholder theory argues that there are other parties involved, including governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, prospective customers, and the public at large. Sometimes even competitors are counted as stakeholders.

Each stakeholder has some special interest that will be impacted by the operations of an organization, and therefore will make social or legal demands of it. How the organization chooses to act will influence the response of the stakeholder. Building relationships and mutual confidence is an important consideration for sustainability.

Stakeholder engagement is a formal process for managing relationships. Engagement theory suggests that management is in a better position to act if it first listens to the issues and ideas of stakeholders, takes the best course of action that is aligned with its principles and objectives, involves the stakeholders in monitoring progress, and reports periodically. The organization should

determine who its primary stakeholders are, those with whom engagement is important for the organization.

“Companies that build strong, mutually beneficial relationships with stakeholders also tend to enjoy enhanced financial performance.”¹⁶

16. Source: Boston College, as quoted on <http://www.interpraxis.com/stakeholderengagement.htm>.

Appendix D – Additional Resources

For more information on ethics and compliance audits, measurements and metrics, see the Open Compliance and Ethics Group at www.oceg.org.

The Global Reporting Initiative is one standard for reporting to the public: www.globalreporting.org.

IIA Guidance

- Practice Guide: Auditing External Business Relationships.
- Practice Guide: Formulating and Expressing Internal Audit Opinions.
- PA-2130.A1-2: Evaluating an Organization's Privacy Framework.
- "Managing the Business Risk of Fraud, A Practical Guide."
- IIA seminar: Evaluating Organizational Ethics.
- IIA seminar: Evaluating Social Responsibility and Sustainable Development.

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Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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