

Guide on Corporate Social Responsibility (CSR) Audit



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Internal Audit Standards Board
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Foreword

In today's global environment, Corporate Social Responsibility (CSR) has gained significance as it entails that business is more than just profit seeking entity and has also an obligation to benefit society. CSR is basically institutionalized philanthropy that enables the business houses to discharge their social responsibilities. The business support to the community and other stakeholders acts favourably for the business houses. Companies do well if their workers are happy; companies do better if the stakeholders are taken into confidence; and companies do best if there is political stability which is possible if the stakeholders are persuaded to believe that the former are committed to fulfilling their social goals by seriously pursuing welfare measures.

Internal auditors' multidimensional knowledge vitally helps the management in assessing the effects of business activities on society; developing and implementing a corporate social responsibility strategy and commitments; adequacy of internal control and review mechanisms; and measuring, evaluating and reporting on CSR activities. Accordingly, internal auditors should have updated knowledge of the global and Indian standards and initiatives related to the corporate social responsibility in order to play a meaningful role in this important area.

Considering this, the Internal Audit Standards Board of the Institute of Chartered Accountants of India (ICAI) is issuing this publication "Guide to Corporate Social Responsibility Audit" for the guidance of the members and other readers. I congratulate CA. Rajkumar S. Adukia, Chairman, Internal Audit Standards Board, CA. Rajendra Kumar P., Vice-Chairman, Internal Audit Standards Board and other members of the Board on issuance of this publication which can be used as a primer on corporate social responsibility audit. I hope that this Guide will help the members to play a meaningful role in helping companies to align CSR strategies to their stated mission and objectives, and maximise impact of its CSR activities.

May 11, 2012
New Delhi

CA. Jaydeep Narendra Shah
President, ICAI

Preface

We live in an increasingly global community, where economic, environmental and social issues transcend national and corporate boundaries. Long term business success requires that sustainable practices are deeply embedded in the DNA of all organizations. Corporate Social Responsibility is a vital issue for organizations and the concept, quite simply, is about developing a corporate strategy that responds to stakeholder's expectations while ensuring long term performance and profitability. Effective CSR initiatives are closely linked to company strategy, and successful companies evaluate their sustainability impacts, risks and opportunities across the entire value chain from product design through the use and ultimate disposal by or recovery from, the end customer; from the supply chain, facilities and operations, through to distribution and logistics.

As companies innovate to better secure their long term viability, the chartered accountants can serve as leading agents by applying their skills and competencies to develop sustainability strategies, facilitate effective implementation, accurate measurement and credible reporting. At the heart of the profession's contribution is the recognition of the importance of useful information. Corporate Social Responsibility Audit is a key element on building the quality and credibility of CSR reporting, despite variations in approaches adopted and different forms of assurance. With a view to providing appropriate guidance to the members of the Institute on CSR Audit, the Internal Audit Standards Board has issued this Guide on Corporate Social Responsibility (CSR) Audit. This Guide covers Introduction to CSR, International Initiatives, CSR-Indian Scenario, International CSR Standards, CSR Reporting Requirements and CSR audit. The Guide also covers CSR measures which are part of the Companies Bill, 2011. It also contains a CSR Checklist on aspects such as, management and strategy level, employee response level, CSR Implementation level. At this juncture, I am grateful to CA. Abhishek Nagori for sparing time out of his preoccupations and sharing his wealth of knowledge and experience with us and preparing the basic draft of the Guide. I also wish to thank CA. Jaydeep N. Shah, President, ICAI and CA. Subodh Kumar Agrawal, Vice President, ICAI for their continuous support and encouragement to the initiatives of the Board. I must also thank our colleagues from the Council at the Internal Audit Standards Board, viz., CA. Rajendra Kumar P., CA. Amarjit Chopra, CA. Shiwaji B. Zaware,

CA. Ravi Holani, CA. Anuj Goyal, CA. Nilesh S. Vikamsey, CA. Atul C. Bheda, CA. Charanjot Singh Nanda, CA. Pankaj Tyagee, CA. G. Ramaswamy, CA. J. Venkateswarlu, CA. Abhijit Bandyopadhyay, CA. S. Santhanakrishnan, Shri Prithvi Haldea, Smt. Usha Narayanan, Shri Gautam Guha, Ms. Revathi Bedi, Shri Manoj Kumar ,Shri Sidharth Birla for their vision and support. I also wish to place on record my gratitude for the co-opted members on the Board viz., CA. Porus Doctor, CA. Masani Hormuzd Bhadur, CA. Ghia Tarun Jamnadas, CA. Deepjee A Singhal, CA. Nitin Alshi, CA. Narendra Aneja and CA. Guru Prasad M for their invaluable guidance and also their dedication and support to various initiatives of the Board. I also wish to express my thanks to CA. Jyoti Singh, Secretary, Internal Audit Standards Board and CA. Krati Rajpurohit, Management Trainee for giving final shape to the Guide.

I firmly believe that this Guide would be warmly received by the members and would be recounted as a landmark publication of the Institute in this emerging area.

May 14, 2012
Mumbai

CA. Rajkumar S. Adukia
Chairman, Internal Audit Standards Board

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Chapter 1

Introduction to Corporate Social Responsibility (CSR)

Meaning of Corporate Social Responsibility (CSR)

1.1 Corporate Social Responsibility (CSR) can be understood as the initiative of a company to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term, generally, applies to company's efforts that go beyond what may be required by regulators or environmental protection groups. Corporate social responsibility is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms.

1.2 The goal of CSR is to embrace responsibility for the company's action and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders. CSR is also known as:

- (i) Corporate Citizenship
- (ii) Corporate Sustainability
- (iii) Corporate Responsibility

1.3 Thus, despite many definitions and different names, at the core they all point towards same fundamental principle, i.e., a company is responsible for providing more benefits than just profits for shareholders. It has a role to play in developing sound corporate governance, fostering human rights, respecting cultural differences and promoting fair trade.

CSR in Nutshell

1.4 CSR is about managing the impacts on society and stakeholders of a organisation's operations, processes, behaviour, etc.

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Typically this means an organisation's Social, Ethical and Environmental (SEE) activities in the wider world. It may be noted that:

- CSR has a relationship with an organisation's financial activities too.
- CSR is at the core of public service and charity organisations.
- CSR lies at the heart of reputation management.

The three pillars of CSR are:

- I. Environment,
- II. Society and
- III. Commerce

Together, these create long-term sustainable development.

Definition

1.5 A single globally accepted definition of CSR does not exist, as the concept is still evolving. The language used in relation to CSR is often used interchangeably with other related topics, such as corporate sustainability, corporate social investment, triple bottom line, socially responsible investment and corporate governance. However, various organisations have developed formal definitions of CSR, some of them are:

- (i) Corporate Social Responsibility 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.
- **World Business Council for Sustainable Development**
- (ii) Corporate Social Responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment.
- **European Commission; Employment & Social Affairs**
- (iii) Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business.
- **Business for Social Responsibility**
- (iv) A set of management practices that ensure the company minimises the negative impacts of its operations on society while maximising its positive impacts.
- **Canadian Centre for Philanthropy**
- (v) The integration of business operations and values whereby the interests of all stakeholders including customers, employees,

investors, and the environment are reflected in the company's policies and actions.

- The Corporate Social Responsibility Newswire Service

Dimensions of Corporate Social Responsibility

1.6 CSR can have internal dimensions as well as external dimensions.

(i) Corporate social responsibility: *the internal dimension*

Within the company, socially responsible practices primarily involve employees and relate to issues such as, investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production. They open a way of managing change and reconciling social development with improved competitiveness.

(ii) Corporate social responsibility: *the external dimension*

Corporate social responsibility extends beyond the doors of the company into the local community and involves a wide range of stakeholders, in addition to employees and shareholders, business partners and suppliers, customers, public authorities and NGOs representing local communities, as well as the environment. In a world of multinational investment and global supply chains, corporate social responsibility must also extend beyond the borders of the country. Rapid globalisation has encouraged discussion of the role and development of global governance, the development of voluntary CSR practices can be seen as contributing to this.

Approaches to Corporate Social Responsibility

1.7 A more common approach of CSR is philanthropy. This includes monetary donations and aid given to local organizations and impoverished communities in developing countries. Some organizations believe that this approach does not help build on skills of local people and so invest on community based development, which generally leads to more sustainable development.

1.8 One more common approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. For instance, procurement of Fair Trade tea and coffee has been adopted by various businesses.

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1.9 Another approach is garnering increasing corporate responsibility interest. This is called Creating Shared Value, or CSV. The shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy. CSV received global attention in the Harvard Business Review article "Strategy & Society". The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

1.10 Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and the way customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review performed, a comparison can be drawn and a strategy developed for competition with CSR initiatives.

Government and Corporate Social Responsibility

1.11 There are several government regulations enacted to protect the environment from degradation. In many countries legislations have been passed for e.g., Clean Air Act, Safe Drinking Water Act and various other acts to protect the environment. Governmental CSR policies do not only assist consumers or organizations, they assist both the consumer and the organization.

History and Evolution of Corporate Social Responsibility

1.12 Through the twentieth century, corporate social responsibility (CSR) developed both as managerial idea as well as academic concept. From a managerial view point 'social responsibility, ideology emerged in 1800's. It is

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to a large extent a by-product of the broader movement of managerial professionalization.

1.13 The phrase Corporate Social Responsibility was coined in 1953 with the publication of "Bowen's Social Responsibility of Businessmen" (Corporate watch report, 2006). The evolution of CSR is as old as trade and business for any of corporation. Industrialization and impact of business on the society led to completely new vision. By 80's and 90's academic CSR was taken into discussion. The first company to implement CSR was Shell in 1998. (Corporate watch report , 2006).

1.14 The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term stakeholder, meaning those on whom an organization's activities have an impact. It was used to describe corporate owners beyond shareholders. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

1.15 CSR is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 also known as ISO SR is the recognized international standard for CSR.

1.16 In today's global environment, CSR has gained significance largely due to the following:

- (i) Globalisation and the proliferation of cross-border trade by multinational entities resulting in an increasing awareness of CSR practices relating to areas such as, human rights, environmental protection, health and safety and anti-corruption.
- (ii) Organisations, such as, the United Nations, the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organisation (ILO), have developed compacts, declarations, guidelines, principles and other instruments that outline norms for acceptable corporate conduct.

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- (iii) Access to information and media enables the public to be more informed and to easily monitor corporate activities.
- (iv) Consumers and investors are demonstrating increased interest in supporting responsible business practices and are demanding more information as to how companies address risks and opportunities relating to social and environmental issues.
- (v) Recent high profile corporate collapses have contributed to public mistrust and the demand for improved corporate governance, accountability and transparency.
- (vi) Commonality of expectations by citizens of various countries with regard to minimum standards companies should achieve in relation to social and environmental issues, regardless of the jurisdiction in which the companies operates.
- (vii) Increasing awareness of the inadequacy of current regulations and legislation with regard to CSR matters and the regulation of multinational entities.

Benefits of Corporate Social Responsibility

1.17 Corporate social responsibility offers manifold benefits both internally and externally to the companies involved in various projects.

Externally, it creates a positive image amongst the people for its company and earns a special respect amongst its peers. It creates short term employment opportunities by taking various projects like, construction of parks, schools, etc., keeping in view the interests of local community. For example, for many businesses, local customers are an important source of sales. By improving the reputation, one may find it easier to recruit employees and retain them. Businesses have a wider impact on the environment also. Plantation and cultivation activities taken up by organization are a step towards the same. Recycling used products also acts as a step towards minimizing wastes.

Internally, it cultivates a sense of loyalty and trust amongst the employees in the organizational ethics. It improves operational efficiency of the company and is often accompanied by increases in quality and productivity. More importantly, it serves as a soothing diversion from the routine workplace practices and gives a feeling of satisfaction and a meaning to their lives. Employees feel more motivated and thus, are more productive. Apart from

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this, CSR helps ensure that the organization comply with regulatory requirements.

1.18 Branco and Rodrigues (2006) also discussed briefly how the intangible benefits of CSR result in sustained competitive advantage for organizations.

"The contribution that CSR may have to financial performance is nowadays primarily related to qualitative factors, such as employee morale or corporate reputation. It is argued that what explains the usefulness of RBP to the study of CSR and disclosure is the emphasis they place on the importance of specific intangible resources, such as reputation, culture, or employee's knowledge, and capabilities, because they are very difficult to imitate and substitute."

Chapter 2

International Initiatives

2.1 Most attempts to regulate CSR have resulted from public international bodies and non government organisations (NGOs). Codes of conduct relating to CSR matters such as, bribery, environment and human rights are voluntary and not legally binding, however, may lead towards a consensus amongst governments which in turn may be embodied in national legislation or universally accepted standards. The trend in developed nations is to support the reporting of CSR without introducing legislation to mandate CSR practices, instead, governments appear to be content relying on initiatives introduced and championed by NGOs and Organisations such as, the OECD, UN and GRI.

2.2 The current CSR landscape is multi-faceted. There are now literally hundreds of private initiatives, often with their own code or set of standards and principles which offer guidance on social and environmental issues. Their focus, membership, usage, and structures vary widely. Overall, they share a desire to help enhance the contribution that business organisations can make to improvement of social and environmental conditions, including labour and other human rights. Since existing instruments evolve and new ones are also emerging, a comprehensive yet accessible listing is almost impossible. Although we can summarize the broad spectrum of existing initiatives and their chief characteristics with a view to helping potential users better understand the current CSR landscape.

2.3 There are three international instruments relevant to CSR – the ILO Declaration, the OECD Guidelines and the UN Global Compact (UNGC) – which have either been developed and formally agreed by governments or have received high-level recognition by governments at an international level. Indeed, the standards and principles set out in the ILO Declaration, the OECD Guidelines and the UNGC are universal and have been derived directly from international normative frameworks.

OECD Guidelines for Multinational Enterprises 2011

2.4 The OECD Guidelines for Multinational Enterprises (MNEs), first adopted in 1976, are the longest standing initiative for the promotion of high

corporate standards. The Guidelines contain non-binding principles and standards for responsible business conduct in areas such as, human rights, supply chain management, disclosure of information, anti-corruption, taxation, labour relations, environment, competition, and consumer welfare.

In 2011, the Guidelines were updated for the fifth time since they were first adopted in 1976. The Guidelines are recommendations jointly addressed by governments to multinational enterprises. They provide principles and standards of good practices consistent with applicable laws. Observance of the Guidelines by enterprises is voluntary and not legally enforceable.

The Guidelines aim to promote the positive contributions of MNEs to economic, environmental and social progress. While the agreement is non-binding, each adhering country agrees to establish a National Contact Point (NCP) to raise awareness, investigate complaints, and mediate disagreements regarding the Guidelines. These National Contact Points (NCP), agencies are established by adhering governments to promote and implement the Guidelines. The NCPs assist enterprises and their stakeholders to take appropriate measures for the implementation of the Guidelines. They also provide a mediation and conciliation platform for resolving practical issues that may arise. Consistent with the objective of functional equivalence and furthering the effectiveness of the Guidelines, adhering countries have flexibility in organising their NCPs, seeking the active support of social partners, including the business community, worker organisations, other non governmental organisations, and other interested parties.

2.5 The OECD Guidelines are divided into three parts as follows:

PART 1 - The Guidelines

- (i) Concepts and Principles
- (ii) General Policies
- (iii) Disclosure
- (iv) Employment & Industrial Relations
- (v) Environment
- (vi) Combating Bribery
- (vii) Consumer Interests
- (viii) **Science and Technology**

(ix) Competition

(x) Taxation.

PART 2 - Implementation Procedure

PART 3 – Commentaries.

International Labour Organisation's (ILO) - Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)

2.6 The ILO, founded in 1919, is a specialised agency of the United Nations focusing on labour issues. This universal instrument offers guidelines to MNEs, governments, and employer's and worker's organizations in areas related to employment, training, conditions of work and life, and industrial relations. Its provisions are reinforced by certain international labour Conventions and Recommendations which its social partner bear in mind and apply, to the greatest extent possible.

2.7 The MNEs Declaration is practical and comprehensive. It comes with the authority that the ILO has adopted it. That is, governments, workers and employers have agreed that it is a good practice guide for enterprise behaviours and actions. It also contains clauses on consultation, procedure for grievances and settlement of dispute. The MNEs Declaration represents a global agreement about how enterprises should act. It is a valuable tool for unions to utilise when organising to maintain and improve the situation of workers.

2.8 This instrument reflects the international consensus on what represent good practice for all enterprises and government behaviour in relation to enterprise activity. Although the MNE Declaration is "non-binding" on states or MNEs, it is universally applicable. This means that it is not necessary for a company to "sign" or otherwise 'adhere" to the Declaration before its behaviour can be examined. The aim of the MNEs Declaration is to encourage the positive contribution that multinationals can make to economic and social progress and to minimize the negative impact of their operations.

The MNEs Declaration provides a framework that trade unions can also use when discussing economic and social issues with governments or in order to audit or evaluate the behaviour of multi national and national enterprises.

The MNEs Declaration is a summary of how the principles contained in ILO Conventions and Recommendations apply in practice to the operation of

companies. Indeed its main value is this point, in the agreement among the tripartite constituents of the ILO that, although ILO standards are intended to apply to governments, the principles underlying these instruments can be applied to business as well.

2.9 It is developed through a Preamble and an elaboration of general policies urging respect for human rights and encouraging multinational enterprises, governments, employer's organizations and worker's organizations to respect national laws and regulations. The Declaration contains a set of general policies aimed at achieving sustainable development and respect for human rights at the workplace. These policies invite multinational enterprises, governments, employer's and worker's organizations to:

- (i) respect national laws and regulations,
- (ii) give due consideration to local practices,
- (iii) respect international standards concerning human and labour rights (including the ILO's Fundamental Principles and Rights at Work), and
- (iv) honour commitments in conformity with national laws and accepted international obligations.

2.10 The policies and principles contained in the MNEs Declaration are just as applicable now as they were in 1977. Furthermore, the MNEs Declaration has been regularly reviewed. Currently, it incorporates reference to the fundamental principles and rights at work, which are considered of key importance to trade unions in recognising the role of enterprises in respecting freedom of association and the right to organize and bargain collectively, and their role in eradicating child and forced labour.

United Nations Global Compact

2.11 Introduced in 1999, The United Nations Global Compact is the largest voluntary corporate responsibility initiative in the world with over 8700 corporate participants and other stakeholders from over 130 countries and is also abbreviated as UNGC. The Global Compact was first announced by the then UN Secretary-General Kofi Annan in an address to The World Economic Forum on January 31, 1999 and was officially launched at UN Headquarters in New York on July 26, 2000. It has mainly two objectives:

- (i) Call countries all over the world to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

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- (ii) Take actions in support of UN goals, including the Millennium Development Goals.

2.12 The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. The Compact's 10 principles enjoy consensus across many jurisdictions and are derived from:

- (i) The Universal Declaration on Human Rights;
- (ii) The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- (iii) The Rio Declaration on Environment and Development; and
- (iv) The United Nations Convention against Corruption

2.13 Following are the Ten Principles by UNGC in different areas:

(i) Human Rights

Principle 1 Business should support and respect the protection of international human rights within their sphere of influence.

Principle 2 Business should make sure they are not complicit in human rights abuses.

(ii) Labour Standards

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4 Businesses should eliminate all forms of forced and compulsory labour.

Principle 5 Businesses should uphold the effective abolition of child labour.

Principle 6 Businesses should eliminate discrimination in respect of employment and occupation.

(iii) Environment Standards

Principle 7 Businesses should support a precautionary approach to environmental challenges.

Principle 8 Businesses should undertake initiatives to promote greater environmental responsibility.

Principle 9 Businesses should encourage the development and diffusion of environmentally friendly technologies.

(iv) Anti- Corruption Principles

Principle 10 Businesses should work against corruption in all its forms including extortion and bribery

Principles for Responsible Investment

2.14 The Principles for Responsible Investment (PRI), issued in April 2006, in the New York Stock Exchange by the then UN Secretary-General is a voluntary initiative for Investment entities that wish to address Environmental Social and Corporate Governance issues (ESG). It is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. In early 2005, the then UN Secretary-General, Kofi Annan, invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). Individuals representing 20 institutional investors from 12 countries agreed to participate in the Investor Group. They were supported by a 70-person multi-stakeholder group of experts from the investment industry, inter-governmental and governmental organizations, civil society and academia. It strives to identify and act on the common ground between the goals of institutional investors and the sustainable development objectives of the United Nations. The audience targeted is the global community, however, the focus is on the eleven largest capital markets, with a goal of protecting the long term interests of fund beneficiaries.

2.15 The PRI were born from the perceived disconnect between corporate responsibility, and the behaviour of financial markets, which are often influenced by short-term considerations at the expense of longer term objectives. It includes environmental, social and governance criteria, and provides a framework for achieving higher long term investment returns and more sustainable markets.

Global Reporting Initiative (GRI)

2.16 The Global Reporting Initiative (GRI), convened in 1997 was formed by the United States Non-Profit Organizations, The Coalition Environment only, Responsible Economies (CERES) with the support of the United Nations Environment Programme (UNEP) and, was established to improve sustainability reporting practices, while achieving comparability, credibility, timeliness, and verifiability of reported information.

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2.17 The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework. A sustainability report is an organizational report that gives information about economic, environmental, social and governance performance. The reporting framework is developed through a consensus-seeking process with participants drawn globally from business, civil society, labour, and professional institutions. It produces one of the world's most prevalent standards for sustainability reporting — also known as ecological footprint reporting, environmental social governance (ESG) reporting, triple bottom line (TBL) reporting, and corporate social responsibility (CSR) reporting.

2.18 To help improve sustainability reporting, many organizations have turned to the Global Reporting Initiative (GRI) as the quasi-standard setter for sustainability reporting. To date, thousands of organizations in the auto, utility, consumer products, pharmaceuticals, finance, telecommunications, transport, energy and chemicals sectors, in addition to public authorities and non-profit organisations have published reports that adopt part or all of the GRI Sustainability Reporting Guidelines. Reporting leads to better Sustainability Development results and through reporting every organization can measure and improve its performance on any specific issue.

2.19 GRI is an independent, global organization that is a collaborating centre of UNEP and works in co-operation with UNGC. The Board of Directors has ultimate responsibility for the GRI. GRI is governed through a multi-stakeholder governance structure of:

- (i) Board of Directors, who have fiduciary, financial, legal, and overall strategic responsibilities for GRI;
- (ii) Stakeholder Council, an advisory group on broad policy issues;
- (iii) Technical Advisory Committee, an advisory group on technical issues;
- (iv) Organizational Stakeholders, who support GRI's mission, elect the Stakeholder Council and contribute to annual budget; and
- (v) International Secretariat, based in Amsterdam, who implements the work plan of the Board.

Chapter 3

CSR – Indian Scenario

Introduction and Evolution

3.1 Corporate social responsibility (CSR) is on the rise all over the world, and India is no exception. The history of corporate paternalism has played an important part in shaping community expectations and CSR practices in India. Civil society, consumers and other actors have increased the pressure on companies to adhere to social and environmental standards, and this new “civil regulatory” environment has had impacts on business in India.

3.2 Business involvement in social welfare and development has been a tradition in India and its evolution from individuals' charity or philanthropy to Corporate Social Responsibility, Corporate Citizenship and Responsible Business can be seen in the business sector over the years. The concept of parting with a portion of one's surplus wealth for the good of society is neither modern nor a Western import into India. From around 600 BC, the merchants were considered an asset to society and were treated with respect and civility as is recorded in the Mahabharata and the Arthashastra.

3.3 The evolution of corporate social responsibility in India refers to changes over time in India of the cultural norms of corporations' engagement of corporate social responsibility (CSR), with CSR referring to way that businesses are managed to bring about an overall positive impact on the communities, cultures, societies and environments in which they operate. The fundamentals of CSR rest on the fact that not only public policy but even companies should be responsible enough to address social issues. Thus, companies should deal with the challenges and issues looked after to a certain extent by the states.

3.4 Among other countries India has one of the richest traditions of CSR. Much has been done in recent years to make Indian entrepreneurs aware of social responsibility as an important segment of their business activity but CSR in India has yet to receive widespread recognition. If this goal has to be realized then the CSR approach of corporate has to be in line with their attitudes towards mainstream business.

3.5 The history of CSR in India has its four phases which run parallel to India's historical development and has resulted in different approaches

towards CSR. However, the phases are not static and the features of each phase may overlap other phases.

The First Phase

3.6 In the first phase charity and philanthropy were the main drivers of CSR. Culture, religion, family values and tradition and industrialization had an influential effect on CSR. In the pre-industrialization period which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples for a religious cause. Moreover these merchants helped the society in getting over phases of famine and epidemics by providing food from their godowns and money, and, thus, securing an integral position in the society. With the arrival of the colonial rule in India from 1850s onwards the approach towards CSR was changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, Birla, Singhanian were strongly inclined towards economic as well as social considerations.

The Second Phase

3.7 In the second phase, during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was when Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. "I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories." This was Gandhi's words which highlights his argument towards his concept of "trusteeship". Gandhi's influence had put pressure on various industrialists to act towards building the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

The Third Phase

3.8 The third phase of CSR had its relation to the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws

relating to labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. In view of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food, etc.) to the needy. However, the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

The Fourth Phase

3.9 In the fourth phase Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social cause. Globalization has transformed India into an important destination in terms of production and manufacturing. As Western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards.

Role of Government

3.10 In India there are relatively small number of companies which practice CSR. Amongst them are a few old family owned companies and corporate giants like, TATA & Birla group companies who made CSR an intrinsic part of their business plans. These companies have been deeply involved with social development initiatives in the communities surrounding their facilities.

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TATA's CSR activities in Jamshedpur include the provision of full health and education expenses for all employees and full management of schools and hospitals.

3.11 As Indian Industry started competing in developed markets of Europe, America and the Far East it had to comply with entry level norms like, certification for responsible corporate practices like, ISO 14001, SA 8000, AA 100 as well as compliance codes formulated by OECD and UN Global Compact which meant they had to adapt new CSR standards.

3.12 "Corporate social responsibility must not be defined by tax planning strategies alone. Rather, it should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which a corporate entity functions. This is part of our cultural heritage. Mahatma Gandhi called it trusteeship, I invite corporate India to be a partner in making ours a more humane and just society... We need a new Partnership for Inclusive Growth based on what I describe as a Ten Point Social Charter" - *Indian Prime Minister, Manmohan Singh in 2007.*

3.13 The Ten Point Social Charter briefly is as follows:

First: have a healthy respect for your workers and invest in their welfare.

Two: corporate social responsibility must not be defined by tax planning strategies alone. Rather, it should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which a corporate entity functions.

Three: industry must be proactive in offering employment to the less privileged, at all levels of the job ladder.

Four: resist excessive remuneration to promoters and senior executives and discourage conspicuous consumption.

Five: invest in people and in their skills.

Six: desist from non-competitive behaviour.

Seven: invest in environment-friendly technologies.

Eight: promote enterprise and innovation, within your firms and outside.

Nine: fight corruption at all levels.

Ten: promote socially responsible media and finance socially responsible advertising.

3.14 The Indian government has been trying to make CSR mandatory for companies to spend at least 2% of net profits on CSR. Facing strong criticism, it gave up the effort and made the spending voluntary. However, in the recent Companies Bill 2011, the government has again propagated the concept of CSR and requires the companies keep tabs on CSR spending and disclose it to their principal stakeholders.

3.15 In India, it is not very clear as to what the term Corporate Social Responsibility encompasses. The Government has nowhere spelt out what constitutes CSR and, therefore, there exists vagueness about the term. Today, CSR to some companies means providing lunch to employees. To others, it's about tackling global warming and environmental issues. India has a tradition of corporate philanthropy. However, the lines between philanthropy and CSR have grown hazier. CSR should actually relate to the way you conduct your business, whereas it gets confused with giving to the local communities in which you operate. The first Government paper on CSR - released by the Ministry of Corporate Affairs in 2009 - also talks of health, cultural and social welfare, and education coming under the CSR head. Although the Government has not defined CSR, it recast it as "responsible business" in the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011.

The government is also ensuring that the public sector companies participate actively in CSR initiatives. The Department of Public Enterprises (DPE) has prepared guidelines for central public sector enterprises to take up important corporate social responsibility projects to be funded by 2-5 per cent of the company's net profits.

Corporate Social Responsibility under the Companies Bill, 2011

3.16 The CSR provisions as per clause 135 of the Companies Bill, 2011 are as follows:

- (i) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

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- (ii) At least 2% of average net profits of the previous three years will have to be spent on corporate social responsibility activities with disclosure to shareholders about the policy adopted in the process, giving reasons on failure of implementation.
- (iii) The Corporate Social Responsibility Committee shall :
 - (a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
 - (b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a), and
 - (c) Monitor the Corporate Social Responsibility Policy of the company from time to time.
- (iv) If the company fails to spend the specified amount on corporate social responsibility activities, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

Schedule VII of The Companies Bill, 2011

3.17 Schedule VII of The Companies Bill, 2011, lays down Activities which may be included by companies in their Corporate Social Responsibility Policies. It includes Activities relating to:—

- (i) Eradicating extreme hunger and poverty.
- (ii) Promotion of education.
- (iii) Promoting gender equality and empowering women.
- (iv) Reducing child mortality and improving maternal health.
- (v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases.
- (vi) Ensuring environmental sustainability.
- (vii) Employment enhancing vocational skills.
- (viii) Social business projects.
- (ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of

the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.

- (x) Such other matters as may be prescribed.

Duties of the Committee as per Clause 135

3.18 Following are the duties of the committee as per clause 135 :

- (i) The main role of the committee is to formulate and recommend to the Board a Corporate Social Responsibility Policy which should indicate the activities to be undertaken by the company.
- (ii) The Committee has to also recommend the quantum of expenditure to be incurred on these activities.
- (iii) The Committee has to monitor the Corporate Social Responsibility Policy of the company from time to time.

National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011

3.19 Corporate Social Responsibility is still voluntary and it is not mandatory in India. The Ministry of Corporate Affairs has issued The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 in this regard. These guidelines are a refinement over the Corporate Social Responsibility Voluntary Guidelines 2009, released by the Ministry of Corporate Affairs in December 2009. Keeping in view the feedback from stakeholders, it was decided to revise the same with a more comprehensive set of guidelines that encompasses social, environmental and economical responsibilities of business. The Guidelines take into account the learnings from various international and national good practices, norms and frameworks, and provide a distinctively Indian approach, which will enable businesses to balance and work through the many unique requirements of India.

Applicability

3.20 The Guidelines are designed to be used by all businesses irrespective of size, sector or location and, therefore, touch on the fundamental aspects – the 'spirit' - of an enterprise. It is expected that all businesses in India, including multi-national companies that operate in the

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country, would consciously work towards following the Guidelines. The Guidelines also provide a framework for responsible business action for Indian MNCs planning to invest or already operating in other parts of the world. Businesses are encouraged to move beyond the recommended minimum provisions articulated in the document.

For business leaders and managers entrusted with the task of deploying the principles of Responsible Business, it is worthwhile to understand that business boundaries today extend well beyond the traditional walls of a factory or an operating plant and all the way across the value chain. Businesses are, therefore, encouraged to ensure that not only do they follow the Guidelines for areas directly within their immediate control or within their sphere of influence, but that they encourage and support their vendors, distributors, partners and other collaborators across their value chains to follow the Guidelines as well.

3.21 The Guidelines are applicable to all such entities, and are intended to be adopted by them comprehensively, as they raise the bar in a manner that makes their value creating operations sustainable. It needs to be emphasized that all Principles are equally important and non-divisible – this implies that if a business endeavours to function responsibly, it would have to adopt each of the nine (9) principles in their entirety rather than picking and choosing what might suit them.

Principles

3.22 The Nine Principles and their brief description as given in The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 are as follows:

(i) **Principle 1:** Businesses should conduct and govern themselves with Ethics, Transparency, and Accountability.

Brief Description: The principle recognizes that ethical conduct in all its functions and processes is the cornerstone of responsible business. The principle acknowledges that business decisions and actions, including those required to operationalize the principles in these Guidelines should be amenable to disclosure and be visible to relevant stakeholders. The principle emphasizes that businesses should inform all relevant stakeholders of the operating risks and address and redress the issues raised. The principle recognizes that the behavior, decision making styles and actions of the leadership of the business establishes a culture of integrity and ethics throughout the enterprise.

(ii) Principle 2: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

Brief Description: The principle emphasizes that in order to function effectively and profitably, businesses should work to improve the quality of life of people. The principle recognizes that all stages of the product life cycle, right from design to final disposal of the goods and services after use, have an impact on society and the environment. Responsible businesses, therefore, should engineer value in their goods and services by keeping in mind these impacts. The principle, while appreciating that businesses are increasingly aware of the need to be internally efficient and responsible, exhorts them to extend their processes to cover the entire value chain – from sourcing of raw materials or process inputs to distribution and disposal.

(iii) Principle 3: Businesses should promote the well-being of all employees.

Brief Description: The principle encompasses all policies and practices relating to the dignity and well-being of employees engaged within a business or in its value chain. The principle extends to all categories of employees engaged in activities contributing to the business, within or outside of its boundaries and covers work performed by individuals, including sub-contracted and home based work

(iv) Principle 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.

Brief Description: The principle recognizes that businesses have a responsibility to think and act beyond the interests of its shareholders to include all their stakeholders. The Principle, while appreciating that all stakeholders are not equally influential or aware, encourages businesses to proactively engage with and respond to those that are disadvantaged, vulnerable and marginalized.

(v) Principle 5: Businesses should respect and promote human rights.

Brief Description: The principle recognizes that human rights are the codification and agreement of what it means to treat others with dignity and respect. Over the decades, these have evolved under the headings of civil, political, economic, cultural and social rights. This holistic and widely agreed nature of human rights offers a practical and legitimate framework for business leaders seeking to manage risks, seize business opportunities and

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compete in a responsible fashion.

The principle imbibes its spirit from the Constitution of India, which through its provisions of Fundamental Rights and Directive Principles of State Policy, enshrines the achievement of human rights for all its citizens. In addition, the principle is in consonance with the Universal Declaration of Human Rights, in the formation of which, India played an active role. The principle takes into account the “Corporate Responsibility to Respect Human Rights”, as referred in the United Nations “Protect, Respect, Remedy” Framework.

(vi) Principle 6: Business should respect, protect, and make efforts to restore the environment.

Brief Description: The principle recognizes that environmental responsibility is a prerequisite for sustainable economic growth and for the well being of society. The principle emphasizes that environmental issues are inter-connected at the local, regional and global levels which makes it imperative for businesses to address issues such as global warming, biodiversity conservation and climate change in a comprehensive and systematic manner. The principle encourages businesses to understand and be accountable for direct and indirect environmental impacts of their operations, products and services and to strive to make them more environment friendly.

The Principle urges businesses to follow the precautionary principle and not go ahead with a particular action if it is unsure of its adverse impact.

(vii) Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.

Brief Description: The principle recognizes that businesses operate within the specified legislative and policy frameworks prescribed by the Government, which guide their growth and also provide for certain desirable restrictions and boundaries. The principle acknowledges that in a democratic set-up, such legal frameworks are developed in a collaborative manner with participation of all the stakeholders, including businesses. The principle, in that context, recognizes the right of businesses to engage with the Government for redressal of a grievance or for influencing public policy and public opinion. The principle emphasizes that policy advocacy must expand public good rather than diminish it or make it available to a select few.

(viii) Principle 8: Businesses should support inclusive growth and equitable development.

Brief Description: The principle recognizes the challenges of social and economic development faced by India and builds upon the development agenda that has been articulated in the government policies and priorities. The principle recognizes the value of the energy and enterprise of businesses and encourages them to innovate and contribute to the overall development of the country, especially to that of the disadvantaged, vulnerable and marginalised sections of society. The principle also emphasizes the need for collaboration amongst businesses, government agencies and civil society in furthering this development agenda. The principle reiterates that business prosperity and inclusive growth and equitable development are interdependent.

(ix) Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner.

Brief Description: This principle is based on the fact that the basic aim of a business entity is to provide goods and services to its customers in a manner that creates value for both. The principle acknowledges that no business entity can exist or survive in the absence of its customers. The principle recognizes that customers have the freedom of choice in the selection and usage of goods and services, and that the enterprises will strive to make available goods that are safe, competitively priced, easy to use and safe to dispose off, for the benefit of their customers. The principle also recognizes that businesses have an obligation to mitigating the long term adverse impacts that excessive consumption may have on the overall well-being of individuals, society and our planet.

3.23 It is critical for each business to assess how adoption of these Guidelines will provide business benefit – in the short term as well as in the long term. To help businesses determine this, they may use a tool called a Business Case Matrix which is shown below. Every business should develop such a matrix for its own context for each Core Element, and thus determine which of these are important to it.

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Principle	Revenue Growth and market access	Cost savings and productivity	Access to capital	Risk management/ license to operate	Human capital	Brand value/ reputation
1. Ethics, transparency, accountability	New customers Business partner of choice	Reduced cost of ambiguity Reduced litigation	Attractive to investors, banks Attractive to financial markets	Positively seen by communities, NGOs, local governments, regulators	Attract and Retain employees	Positively seen by customer, regulators, media
2. Safe and Sustainable goods and services	New customers Customer loyalty	Efficiency gains across the value chain – procurement, production distribution, after-sales	Investors feel assured that liability issues are minimized. Sustainable production attracts	Reduced risk of action from regulators and NGOs	Employee morale is high due to working to improve the quality of life of customer/community	Better brand Identity New found USP
3. Well-being of employees	Business partner of choice	Increased productivity High morale Less absenteeism		Improved labour relations leading to less disruptions	Attract and retain employees Reduced tardiness & absenteeism	Employer of choice
4. Responsiveness to all stakeholders	Responsive to customer demands/ needs/ wants leads to increase	Efficiency gains across the value chain – procurement	Attractive to investors, banks Attractive to	Positively seen by communities, NGOs, local governments	People drawn to work for a sensitive employer	Positively seen by customers, regulators, media Enhances

CSR — Indian Scenario

	in market share; The ability to function in the long term is improved to being responsiveness.	nt, production distribution, after-sales	financial markets	nts, regulators		corporate cache
5. Promoting Human rights	Business partner of choice	Minimized litigation	Attractive to investors, banks Attractive to financial markets	Positively seen by communities and NGOs Lower risk of non compliance	Employees/ talent attracted by firm that is committed to the dignity of all.	Positively seen by customers, regulators, media
6. Protecting the Environment	Business partner of choice Sustainability oriented buyers will prefer to deal with organization	Lower operating costs in the long term Less danger of "externalities" emerging as liabilities	Attractive to investors, banks Attractive to financial markets	Positively seen by communities, NGOs, local governments, regulators Lower risk of noncompliance	Talent is drawn to the firm due to its commitment to the wellbeing of the planet	Positively seen by customers, regulators, media
7. Responsible policy advocacy	Growth stimulated due to openness and trust	Blunt the possibility of others using policy to stymie business	Openness will attract investors committed to good governance	Positively seen by civil society	People drawn to work for an open firm	Positively seen by customers, regulators, media
8. Supporting Inclusive	New	New models	Newer sources	Enhanced governance	Potential	Positively seen

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development	customers Market expansion Innovative thinking stimulated	will emerge to impact cost savings	of funding such as social venture funds	ntal support to initiatives Cordial relations with stakeholders conducive for business growth	source of trained employees	by customers, regulators, media
9.Providing value to customer	New customers Customer loyalty	New markets brought into fold	Investor s back a growing firm	Lower risk of consumer action	Talent will be drawn towards growing firm	Customers perceive brand and firm favourably

3.24 Corporate Social Responsibility (CSR) has gone through many phases in India. The ability to make a significant difference in the society and improve the overall quality of life has clearly been proven by the companies. Not one but all the companies should try and bring about a change in current status of CSR in India in order to have effective and lasting solution to the social woes. Partnerships between companies, NGO's and government should be facilitated so that their combination will initiate extensive social change and put the socio-economic development of India on a fast track.

Chapter 4

International CSR Standards

4.1 ISO (International Organization for Standardization) is the world's largest developer and publisher of International Standards with a Central Secretariat in Geneva, Switzerland, that co-ordinates the system. ISO is made up of 163 members, who are divided into three categories:

- (i) Member bodies
- (ii) Correspondent members
- (iii) Subscriber members

A member body of ISO is the national body "most representative of standardization in its country". Only one such body for each country is accepted for membership of ISO. Member bodies are entitled to participate and exercise full voting rights on any technical committee and policy committee of ISO.

4.2 It is a non-governmental organization that forms a bridge between the public and private sectors. On the one hand, many of its member institutes are part of the governmental structure of their countries, or are mandated by their government. On the other hand, other members have their roots uniquely in the private sector, having been set up by national partnerships of industry associations. ISO has developed over 18,000 International Standards on a variety of subjects and some 1100 new ISO standards are published every year. To ensure that ISO standards retain this lead, they are reviewed at least every five years after their publication. The technical experts then decide whether the standard is still valid, or whether it should be withdrawn or updated.

4.3 There are several reporting standards followed internationally for measuring the social impact of corporate actions in the normal course of business so far as those are linked with its social responsibility are discussed in this chapter. The standard on Social Responsibility developed by ISO has been discussed below.'

International Organisation for Standardization - ISO 26000

4.4 The International Organization for Standardization (ISO) has launched an International Standard providing guidelines for social responsibility named ISO 26000 or simply ISO SR and was released on 1 November, 2010. This standard offers guidance on socially responsible behaviour and possible actions. ISO 26000:2010 provides guidance to all types of organizations, regardless of their size or location on:

- (i) Concepts, terms and definitions related to social responsibility.
- (ii) The background, trends and characteristics of social responsibility.
- (iii) Principles and practices relating to social responsibility.
- (iv) The core subjects and issues of social responsibility.
- (v) Integrating, implementing and promoting socially responsible behaviour throughout the organization and, through its policies and practices, within its sphere of influence.
- (vi) Identifying and engaging with stakeholders.
- (vii) Communicating commitments, performance and other information related to social responsibility.

4.5 ISO 26000:2010 assists organizations in contributing to sustainable development. It is intended to encourage them to go beyond legal compliance, recognizing that compliance with law is a fundamental duty of any organization and an essential part of their social responsibility. It promotes common understanding in the field of social responsibility, and to complement other instruments and initiatives for social responsibility, not to replace them.

4.6 In applying ISO 26000:2010, it is advisable that an organization takes into consideration societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions, while being consistent with international norms of behaviour.

4.7 ISO 26000:2010 is not a management system standard. It is not intended or appropriate for certification purposes or regulatory or contractual use. Any offer to certify, or claims to be certified, to ISO 26000 would be a misrepresentation of the intent and purpose and a misuse of ISO 26000:2010. As ISO 26000:2010 does not contain requirements, any such

certification would not be a demonstration of conformity with ISO 26000:2010.

4.8 ISO 26000:2010 is intended to provide organizations with guidance concerning social responsibility and can be used as part of public policy activities. However, for the purposes of the Marrakech Agreement establishing the World Trade Organization (WTO), it is not intended to be interpreted as an “international standard”, “guideline” or “recommendation”, nor is it intended to provide a basis for any presumption or finding that a measure is consistent with WTO obligations. Further, it is not intended to provide a basis for legal actions, complaints, defences or other claims in any international, domestic or other proceeding, nor is it intended to be cited as evidence of the evolution of customary international law.]

4.9 ISO 26000:2010 is not intended to prevent the development of national standards that are more specific, more demanding, or of a different type.

Global Reporting Initiative (GRI) - G3.1 Guidelines

4.10 The GRI Sustainability Reporting Framework consists of the Sustainability Reporting Guidelines, Sector Supplements, National Annexes, and the Boundary and Technical Protocols.

4.11 The Sustainability Reporting Guidelines are the foundation of GRI's Framework and are now in their third generation. They feature sustainability disclosures that organizations can adopt flexibly and incrementally, enabling them to be transparent about their performance in key sustainability areas.

4.12 The G3.1 Sustainability Reporting Guidelines are the latest and most complete version. Launched in 2011, G3.1 completes the content of the G3 Guidelines released in 2006. G3.1 features expanded guidance on local community impacts, human rights and gender. While G3-based reports are still accepted, GRI recommends that reporters use G3.1, the most comprehensive reporting guidance available today.

4.13 The fourth generation of Guidelines - G4 - is currently in development and will be launched in May 2013. The Guidelines' development is influenced by changes in the reporting field, such as the introduction of new concepts, trends and tools, and requests by new players. By developing guidance, GRI aims to drive and direct sustainability reporting, towards a sustainable global economy. The landscape of sustainability reporting is evolving; this should influence the development of GRI's guidance.

Social Accountability International (SAI) - SA 8000

4.14 Social Accountability International (SAI) is an independent, non-governmental, not-for-profit organization that promotes the human rights of workers through the implementation of its SA 8000 standard. SA 8000 is a global social accountability standard for decent working conditions, developed and overseen by Social Accountability International (SAI). SA 8000 integrates nine core elements which are discussed below:

(i) **Child Labour:** No use or support of child labor; policies and written procedures for remediation of children found to be working in situation; provide adequate financial and other support to enable such children to attend school; and employment of young workers conditional.

(ii) **Forced and Compulsory Labour:** No use or support for forced or compulsory labor; no required 'deposits' - financial or otherwise; no withholding salary, benefits, property or documents to force personnel to continue work; personnel right to leave premises after workday; personnel free to terminate their employment; and no use nor support for human trafficking.

(iii) **Health and Safety:** Provide a safe and healthy workplace; prevent potential occupational accidents; appoint senior manager to ensure OSH; instruction on OSH for all personnel; system to detect, avoid, respond to risks; record all accidents; provide personal protection equipment and medical attention in event of work-related injury; remove, reduce risks to new and expectant mothers; hygiene- toilet, potable water, sanitary food storage; decent dormitories- clean, safe, meet basic needs; and worker right to remove from imminent danger.

(iv) **Freedom of association and Right to collective Bargaining:** Respect the right to form and join trade unions and bargain collectively. All personnel are free to organize trade unions of their choice; and bargain collectively with their employer. A company shall respect right to organize unions & bargain collectively; not interfere in workers' organizations or collective bargaining; inform personnel of these rights & freedom from retaliation; where law restricts rights, allow workers freely elect representatives; ensure no discrimination against personnel engaged in worker organizations; and ensure representatives access to workers at the workplace.

International CSR Standards

(v) **Discrimination:** No discrimination based on race, national or social origin, caste, birth, religion, disability, gender, sexual orientation, union membership, political opinions and age. No discrimination in hiring, remuneration, access to training, promotion, termination, and retirement. No interference with exercise of personnel tenets or practices; prohibition of threatening, abusive, exploitative, coercive behaviour at workplace or company facilities; no pregnancy or virginity tests under any circumstances.

(vi) **Disciplinary Practices:** Treat all personnel with dignity and respect; zero tolerance of corporal punishment, mental or physical abuse of personnel; no harsh or inhumane treatment.

(vii) **Working Hours:** Compliance with laws and industry standards; normal workweek, not including overtime, shall not exceed 48 hours; 1 day off following every 6 consecutive work days, with some exceptions; overtime is voluntary, not regular, not more than 12 hours per week; required overtime only if negotiated in CBA.

(viii) **Remuneration:** Respect right of personnel to living wage; all workers paid at least legal minimum wage; wages sufficient to meet basic needs and provide discretionary income; deductions not for disciplinary purposes, with some exceptions; wages and benefits clearly communicated to workers; paid in convenient manner – cash or check form; overtime paid at premium rate; prohibited use of labor-only contracting, short-term contracts, false apprenticeship schemes to avoid legal obligations to personnel.

(ix) **Management Systems:** Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

4.15 The SA 8000 standard is based on the principles of the International Labour Organization (ILO) Conventions and the United Nations Convention on the Rights of the Child, and the Universal Declaration of Human Rights. The key features of this Standard are:

- (i) The application of the SA 8000 standard is not restricted to any particular sector, product group or service activity.
- (ii) SA 8000 is a process-type standard not a product-type standard. There is no seal or label on goods produced by companies certified against the standard.
- (iii) SA 8000 requirements apply universally, regardless of a company's size, its geographic location or industry sector.

The Institute for Social and Ethical Accountability (ISEA) – AA 1000 Standard for Ethical Performance

4.16 Accountability 1000 (AA1000) is the work of ISEA - the Institute for Social and Ethical Accountability. ISEA (also known as Account Ability) is an international membership organisation, based in the UK. It exists to encourage ethical behaviour in business and non-profit organisations.

4.17 AA1000 is promoted as a standard for the measuring and reporting of ethical behaviour in business. It provides a framework that organisations can use to understand and improve their ethical performance and become more accountable, responsible and sustainable. AccountAbility's AA1000 series are principles-based standards to help organisations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organizational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement. The AA1000 standards are designed for the integrated thinking required by the low carbon and green economy, and support integrated reporting and assurance.

The AA1000 Series of Standards are as follows:

- (i) **The AA1000 Accountability Principles Standard (AA1000APS)** provides a framework for an organisation to identify, prioritise and respond to its sustainability challenges.
- (ii) **The AA1000 Assurance Standard (AA1000AS)** provides a methodology for assurance practitioners to evaluate the nature and extent to which an organisation adheres to the AccountAbility Principles.
- (iii) **The AA1000 Stakeholder Engagement Standard (AA1000SES)** provides a framework to help organisations ensure stakeholder engagement processes are purpose driven, robust and deliver results.

Triple Bottom Line Reporting (TBL)

4.18 The term 'triple bottom line' (TBL) is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. TBL has achieved considerable importance because many big companies have adopted it. The World Business Council for Sustainable Development, a coalition of international companies, has also given strong endorsement to the concept.

4.19 The phrase “the triple bottom line” was first coined in 1994 by John Elkington, the founder of a British consultancy called “Sustainability”. His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional *measure* of corporate profit—the bottom line of *the profit and loss account*. The second is the bottom line of a company’s “*people account*”—a measure in some shape or form of how socially responsible an organisation has been throughout its operations. The third is the bottom line of the company’s “*planet account*”—a measure of how environmentally responsible it has been. The triple bottom line (TBL) thus consists of three Ps: *profit, people and planet*. It aims to measure the economic, social and environmental performance of the corporation over a period of time.

4.20 A triple bottom line report is an accounting of business performance in terms of its impacts on the economy, the environment and society. The term “CSR report” is often used instead of a triple bottom line report, but the two are interchangeable. The theory behind the triple bottom line is that it is in the interests of a business to act as a steward of the environment, society and the economy.

Millennium Development Goals (MDGs)

4.21 The Millennium Development Goals (MDGs) are international development goals that all 192 United Nations member states and at least 23 international organizations have agreed to achieve by the year 2015. There are eight Millennium Development Goals with 21 targets. These targets have one or more indicators that can be used to measure progress against the Millennium Development Goals.

4.22 The Eight Millennium Development Goals are:

- GOAL 1: Eradicate extreme poverty and hunger
- GOAL 2: Achieve universal primary education
- GOAL 3: Promote gender equality and empower women
- GOAL 4: Reduce child mortality
- GOAL 5: Improve maternal health
- GOAL 6: Combat HIV/AIDS, Malaria and other diseases
- GOAL 7: Ensure environmental sustainability
- GOAL 8: Develop a global partnership for development

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Incorporating the above mentioned Millennium Development Goals into company's practices, can serve the purpose of Corporate Social Responsibility.

Chapter 5

CSR Reporting Requirements

5.1 Some organizations follow a "Triple Bottom Line" reporting strategy, which covers Economic, Environmental and Social Responsibility. Internationally, this theme is prevalent in mining, forestry and oil companies, where the environment has been an important focus of governments and communities. These organizations may also refer to CSR as Sustainable Development, because their focus on the environment is so strong.

5.2 Depending on the organizations risk profile, globalization and maturity, it may include some or all of the following elements within CSR objectives:

- (i) Ethics
- (ii) Transparency
- (iii) Environment
- (iv) Health and Safety
- (v) Corporate Governance
- (vi) Human Rights
- (vii) Community Investment.

5.3 Business Responsibility Reporting Framework has been given in "The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011" by Ministry of Corporate Affairs. The Guidelines encompass Nine Principles and related Core Elements which identify the areas where responsible practices need to be adopted as discussed in Chapter three. The Reporting Framework provides a standard disclosure template which can be used by businesses to report on their performance in the above mentioned areas.

5.4 The objective of the Business Responsibility (BR) Framework is to help businesses to reach out to their stakeholders with necessary information and data demonstrating the adoption of these Guidelines.

In the context of BR reporting, it is appreciated that there are three categories of businesses as under and the Reporting Framework, accordingly, suggests different approaches that may be adopted by the three categories of entities:

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(i) *Business entities already preparing responsibility and sustainability reports based on internationally accepted reporting frameworks.*

This category of entities may not prepare a separate report for the purpose of these Guidelines but furnish the same to their stakeholders along with the details of the framework under which their BR report has been prepared and a mapping of the nine principles contained in this Guideline to the disclosures made in their BR reports.

(ii) *Business entities that have chosen to adopt these Guidelines completely or in part, but are not yet fully capacitated to prepare a comprehensive BR report.*

This category of entities may furnish a simple communication to their stakeholders indicating their commitment to adoption on these Guidelines in full or in part, and basic details of the activities undertaken in pursuance to these Guidelines. The communication may be in a free format and should be signed by the owner/Managing Director or the CEO of the entity. Such entities are encouraged to see the suggested framework for the third category and upgrade their BR communication on a progressive and continuous basis.

(iii) *Business entities that would like to prepare comprehensive reports after adopting these Guidelines*

The BR reporting framework is suggested. This framework identifies certain basic parameters on which the businesses can disclose their performance so as to demonstrate their adoption of these Guidelines in letter and spirit. It has been divided into two parts- Part A incorporates the basic information about the operations of the business entity so that their BR report can be a self contained document and Part B incorporates the performance indicators for different Principles and Core Elements.

Business Responsibility Report - Suggested Framework

(As given in National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business)

Part A

A-1

(i) Basic details of the business – Name, nature of ownership, details of the people in top management, location of its operations - national and international, products and services offered, markets served.

CSR Reporting Requirements

- (ii) Economic and Financial Data – Sales, Net Profit; Tax Paid, Total Assets, Market Capitalization (for listed companies), number of employees.

A-2

- (i) Management's Commitment Statement to the ESG Guidelines.
- (ii) Priorities in terms of Principle and Core Elements.
- (iii) Reporting Period/ Cycle.
- (iv) Whether the reports based on this framework or any other framework.
- (v) Any significant Risk that the business would like its stakeholders to know.
- (vi) Any Goals and Targets that were set by the top management for improving their performance during the Reporting Period.

Part B

Part-B of the report incorporates the basic parameters on which the business may report their performance. Efforts have been made to keep the reporting simple keeping in view the fact that this framework is equally applicable to the small businesses as well. The report may be prepared in a free format with the basic performance indicators being included in the same. In case the business entity has chosen not to adopt or report on any of the Principles, the same may be stated along with, if possible, the reasons for not doing so.

B-1

Principle 1 – Ethics, Transparency and Accountability

- (i) Governance structure of the business, including committees under the Board responsible for organizational oversight. In case no committee is constituted, then the details of the individual responsible for the oversight.
- (ii) Mandate and composition (including number of independent members and/ or non-executive members) of such committee with the number of oversight review meetings held.
- (iii) State whether the person/ committee held responsible for oversight review is independent from the executive authority or not. If yes, how.
- (iv) Mechanisms for shareholders and employees to provide recommendations or direction to the Board/ Chief Executive.

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- (v) Processes in place for the Board/ Chief Executive to ensure conflicts of interest are avoided.
- (vi) Internally developed statement on Ethics, Codes of Conduct and details of the process followed to ensure that the same are followed.
- (vii) Frequency with which the Board/ Chief Executive assess BR performance.

Principle 2 – Products Life Cycle Sustainability

- (i) Statement on the use of recyclable raw materials used.
- (ii) Statement on use of energy-efficient technologies, designs and manufacturing/ service-delivery processes.
- (iii) Statement on copyrights issues in case of the products that involve use of traditional knowledge and geographical indicators Statement on use of sustainable practices used in the value chain.

Principle 3 – Employees' well-being

- (i) Total number of employees with percentage of employees that are engaged through contractors.
- (ii) Statement on non-discriminatory employment policy of the business entity.
- (iii) Percentage of employees who are women.
- (iv) Number of persons with disabilities hired.
- (v) Amount of the least monthly wage paid to any skilled and unskilled employee.
- (vi) Number of training and skill up-gradation programmes organized during the reporting period for skilled and unskilled employees.
- (vii) Number of incidents of delay in payment of wages during the reporting period.
- (viii) Number of grievances submitted by the employees

Principle 4 – Stakeholder Engagement

- (i) Statement on the process of identification of stakeholders and engaging with them.
- (ii) Statement on significant issues on which formal dialogue has been undertaken with any of the stakeholder groups.

Principle 5 – Human Rights

- (i) Statement on the policy of the business entity on observance of human rights in their operation.
- (ii) Statement on complaints of human rights violations filed during the reporting period.

Principle 6 – Environment

- (i) Percentage of materials used that are recycled input materials.
- (ii) Total energy consumed by the business entity for its operations.
- (iii) Statement on use of energy saving processes and the total energy saved due to use of such processes.
- (iv) Use of renewable energy as percentage of total energy consumption.
- (v) Total water consumed and the percentage of water that is recycled and reused.
- (vi) Statement on quantum of emissions of greenhouse gases and efforts made to reduce the same.
- (vii) Statement on discharge of water and effluents indicating the treatment done before discharge and the destination of disposal.
- (viii) Details of efforts made for reconstruction of bio-diversity.

Principle 7 – Policy Advocacy

- (i) Statement on significant policy advocacy efforts undertaken with details of the platforms used.

Principle 8 – Inclusive Growth

- (i) Details of community investment and development work undertaken indicating the financial resources deployed and the impact of this work with a longer term perspective.
- (ii) Details of innovative practices, products and services that particularly enhance access and allocation of resources to the poor and the marginalized groups of the society.

Principle 9 – Customer Value

- (i) Statement on whether the labeling of their products has adequate information regarding product-related customer health and safety, method of use and disposal, product and process standards observed.

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- (ii) Details of the customer complaints on safety, labeling and safe disposal of the products received during the reporting period.

Part C

Part C of the report incorporates two important aspects on BR reporting. Part C-1 is a disclosure on by the business entity on any negative consequences of its operations on the social, environmental and economic fronts. The objective is to encourage the business to report on this aspect in a transparent manner so that it can channelize its efforts to mitigate the same. Part C-2 is aimed at encouraging the business to continuously improve its performance in the area of BR.

C-1

- (i) Brief Report on any material/ significant negative consequences of the operations of the business entity.

C-2

- (i) Brief on Goals and Targets in the area of social, environmental and economic responsibilities that the business entity has set for itself for the next reporting period.

Trends in Corporate Responsibility Reporting as given in the Sustainability Framework 2.0

5.5 The KPMG International Survey of Corporate Responsibility Reporting 2008, a comprehensive look at the reporting trends in the world's largest companies, shows corporate responsibility reporting (which covers all forms of sustainability reporting) is mainstream with nearly 80 percent of the largest 250 companies worldwide issuing reports. Of these, only 4 percent integrate corporate responsibility information into their annual reports. The survey also reveals good practices in corporate responsibility (sustainability) reporting and shows which reporting standards and guidelines are used by companies. More than three-quarters of the Global Fortune 250 and 69 percent of the largest companies in the world by revenue follow the GRI Sustainability Reporting Guidelines. However, only 16 percent quantified the value of corporate responsibility performance specifically for their analyst and investor stakeholders.

Disclosure about the Financial Impact of Climate Change and Other Environmental Issues

5.6 General questions that management might consider when deciding what to disclose may include following:

- (i) Have we identified all climate change and other environmental issues that our company faces?
- (ii) Have we identified all critical accounting estimates related to climate change and other environmental issues, and collected all necessary information for disclosure?
- (iii) Have we determined which climate change and other environmental issues are material and therefore require disclosure?
- (iv) Have we assessed materiality in qualitative as well as quantitative terms?
- (v) Have we documented and communicated internally how we have determined materiality regarding the impact of climate change and other environmental issues on financial performance?
- (vi) Have we focused on the potential impact of climate change and other environmental issues on our longer-term financial condition as well as shorter-term performance?
- (vii) Have we presented disclosures about climate change and other environmental issues in plain language, with candour and without jargon?
- (viii) From period to period, are there comparability and consistency in MD&A disclosures about climate change and other environmental issues?

Chapter 6

Role of Internal Audit in CSR

6.1 All types of CSR information disclosure are effected by the need for credibility. Some examples are:

- (i) employees, to provide confidence in systems, establish progress against targets and improve confidence;
- (ii) specialists, including analysts, particularly rating agencies, government officials and NGOs;
- (iii) business partners, to strengthen the supply chain; and
- (iv) communities, to establish credibility with neighbours and local organizations.

6.2 In a report entitled "*The State of Sustainability Assurance*" published by Accountability, some of the main point were that:

- (i) sustainability assurance is seen as a key element in building the quality and credibility of sustainability reporting, despite huge variations in the approach adopted, different forms of assurance conclusion and a lack of credibility amongst preparers and stakeholders;
- (ii) investors, regulators and other stakeholders will become a powerful driver of sustainability assurance;
- (iii) effective sustainability assurance will involve multi-stakeholder teams and enable disclosed information to have a better focus on what is material.

6.3 ISAE 3000 "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" issued by the International Audit and Assurance Standards Board of IFAC addresses a number of broad principles, many of which are relevant with regard to assurance on CSR reporting. ISAE 3000 addresses a number of important issues that are of general relevance to the assurance of non-financial information, e.g., planning and performing the engagement, using the work of an expert, obtaining evidence and preparing the assurance report based on the concept of reasonable assurance. ISAE 3000 is used by many accountants as a basis for assurance on CSR/ sustainability reports.

6.4 ISAE 3000 has comprehensive procedures for evidence gathering processes and other areas. It requires the level of assurance to be stated based on the risk of the engagement. ISAE 3000 sets out in detail the characteristics of criteria suitable for assurance as follows:

- (i) Relevance – relevant criteria contribute to conclusions that assist decision-making by the intended users.
- (ii) Completeness – criteria are sufficiently complete when relevant factors that could effect the conclusions in the context of the engagement circumstances are not omitted.
- (iii) Reliability – reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.
- (iv) Neutrality – neutral criteria contribute to conclusion, that are free from bias.
- (v) Understandability – easy to understand criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

6.5 The AA1000 Assurance Standard is a principle-based standard that provides an approach specifically aimed at full sustainability assurance. It provides a platform to align the non-financial aspects of sustainability with financial reporting and assurance. It provides a means for assurance providers to go beyond mere verification of data, to evaluate the way reporting organizations manage sustainability, and to reflect that management and resulting performance in its assurance statement. It addresses the underlying management and reporting systems and processes as well as the reported information. AA1000AS provides a methodology for assurance providers to evaluate and provide conclusions on:

- (i) Type 1 – the nature and extent of adherence to the AA1000 AccountAbility Principles.
- (ii) Type 2 – the nature and extent of adherence to the AA1000 AccountAbility Principles and the quality of information disclosed on sustainability performance.

6.6. Internal Auditors might be involved in CSR at a various levels:

- (i) Internal Auditors might facilitate or advise management on CSR self-assessment activities.

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- (ii) Internal Auditors might be involved in auditing CSR programs, either as individual components of the audit plan, or as a broad based review of how CSR is managed, and whether the company is achieving its CSR objectives.
- (iii) Internal Auditors might become involved in co-ordinating or participating in CSR Report verifications {assurance audits} or assurance relating to controls over public disclosures of financial and non-financial information relating to CSR, or any of the CSR elements.

6.7 Internal auditors have an opportunity to make value additions to the Corporate Sustainability Reporting process of their organization. They must have a good knowledge and understanding of prevalent CSR concepts. Important role internal auditors can play includes:

- (i) Assist in the design/ implementation of the CSR management system.
- (ii) Perform limited scope audits requested by top management.
- (iii) Perform supply chain audits.
- (iv) Perform compliance audits.
- (v) Advise on the appointment of outside assessors.
- (vi) Co-ordinate audit activities by external assessors.

Major Areas of Internal Audit Significance

6.8 The following are major areas of internal audit significance:

Economic Performance

- (i) Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
- (ii) Financial implications and other risks and opportunities for the organization's activities due to climate change.
- (iii) Significant financial assistance received from government.

Environmental Concerns

- (i) Total energy consumed by the business entity for its operations.

- (ii) Use of renewable energy as percentage of total energy consumption.
- (iii) Total water consumed and the percentage of water that is recycled and reused.
- (iv) Emissions, Effluents and Waste.
- (v) Statement on quantum of emissions of greenhouse gases and efforts made to reduce the same.
- (vi) Details of efforts made for reconstruction of bio-diversity.
- (vii) Compliance with environmental laws and regulations.
- (viii) Total environmental protection expenditures and investments by type.

Labour

- (i) The basic wage level (unskilled workers) higher than the minimum wage.
- (ii) The average monthly overtime within the limits set by national/ international (e.g., ILO) standards.
- (iii) The procedure for verifying the age of workers and prohibition on child labor.
- (iv) Facilities for children accompanying their parent(s) onto the business premises.
- (v) Freely chosen employment.
- (vi) Adoption of consultative workplace structures.

Human Rights

- (i) Non-discrimination between male and female workers.
- (ii) Role in the enforcement of international human rights standards.
- (iii) Involved in delivering services previously provided by governments.
- (iv) Respecting the human rights of those who come into contact with the corporation in some way.

Society

- (i) Managing Change & Assessment of Social Impact.
- (ii) Felt needs of the key community related to core competencies.

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- (iii) Volunteering Process in the Community.
- (iv) Social Concerns addressed through Programs.
- (v) Improving Attitudes/ government processes
- (vi) Self-Reliance and Sustenance
- (vii) Learning and Innovation Transfer
- (viii) Effective Management and Good Governance

Product Responsibility

- (i) The product of the company is not hazardous or environment non-friendly.
- (ii) The product is not against health requirements or society's moral values.
- (iii) Quality of product and after sale services.

Appendix I

Illustrative CSR Checklist

(I) Management and Strategy Level

Leadership Commitment and Involvement

		Yes/ No	Comment
(i)	Senior leaders support CSR at all levels of leadership and explicit roles are assigned, clear direction provided and they are personally involved. The company has a process of appointing a director in charge of CSR and assigning a specific role to the CEO and all senior leaders.		
(ii)	Senior leaders periodically evolve and declare the common direction on CSR.		
(iii)	Social and Environmental Performance is an important area of performance and CSR goals are achieved and accounted through the regular Performance Management System governing the leadership in the Company.		
(iv)	There are processes to include CSR goals and activities in the Balanced Scorecards of all levels of leadership and linked to the Performance Management Systems down the line.		
(v)	There is a process of appointing and assigning roles on CSR to a Corporate Head-Social Responsibility integrating Environmental Management, Safety, Ecological and Biodiversity issues, Social Development and Volunteering.		
(vi)	CSR demands an intensive and integrated role from all major functional heads of the Company.		

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		Yes/ No	Comment
(vii)	Organizational commitment includes the involvement of functional heads and processes to factor CSR considerations in all operational decision-making processes and activities.		
(viii)	All operational heads and functions have processes to factor and consider CSR implications into their operational and activity flowcharts and work instructions.		
(ix)	Data gathering and information systems incorporate the collection of data that is CSR sensitive.		
(x)	In all meetings and conventions that endorse management decisions on operational areas, there is an emphasis on CSR implications and senior leaders, heads of functions are intently involved in carrying out their social responsibility.		

Management Structure and Deployment

		Yes/ No	Comment
(i)	The Company has evolved appropriate organizational structures and positioned senior level/ functional representatives to drive CSR effectively.		
(ii)	The Company has formed a Cross-Functional Team on CSR integrating Human Resource, Business Excellence, Ethics, Communications, Operations with Environmental Management and Community Development all into one focus with a convention for functioning.		
(iii)	The Cross Functional Team is effectively operational and adequately meets the organizational requirements to drive CSR.		
(iv)	There is a process/ convention to ensure that the members of the Cross-Functional		

Illustrative CSR Checklist

		Yes/ No	Comment
	Team have put down detailed work plans/ programs for the year with adequate measurement and indicators for all areas of work in all locations and divisions.		
(v)	The CEO/ Senior Leaders proactively support the Cross Functional Team in terms of deploying budgets and resources as agreed in the annual plans.		
(vi)	There is a reasonable priority accorded to CSR activities and a process exists to ensure that the Team is not constrained by empowerment, budgetary or resources allocation considering that the activity is sensitive to the Brand Assurance.		

Strategy Development and Action Plan

		Yes/ No	Comment
(i)	The Company's Strategic planning and implementation process includes a systematic approach to factor CSR considerations aligned to the Company's overall approach to CSR.		
(ii)	There are annual plan/ timetable and strategic objectives not only for the Environmental and Social work but also for providing support to CSR by way of HR and communication support and other aspects linked to the strategy.		

Review Mechanism and Reporting

		Yes/ No	Comment
(i)	Periodic meetings to review the progress of various CSR initiatives are being held systematically with appropriate actions being decided and followed up by the CEO and senior leaders.		

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(ii)	There are formal and informal processes and conventions for dealing with CSR issues and include regular meetings.		
(iii)	CSR is a part of Corporate Governance and is reviewed by the Board.		
(iv)	The Company has a process to review CSR at least 3 times in a year along with the Cross-Functional Team with CEO/ Director and set a direction on CSR that is adequately communicated.		

Communications and Awareness

		Yes/ No	Comment
(i)	The organization has a system of communications to inform employees on CSR and receive feedback through mechanisms in place.		
(ii)	There are specific channels of communication dedicated to CSR and reaches all messages, activities, events and practices apart from policies on CSR to all employees throughout the organization.		
(iii)	The Company considers it proper to document case studies, best practices and significant achievements for dissemination to employees and all stakeholders.		
(iv)	There are processes and frameworks in place to document important CSR work and disseminate it through different medium.		

(II) Employee Response Level

Selection, Career Development of key Employees and Performance Management

		Yes/ No	Comment
(i)	Employees driving CSR should be able to connect well with others and motivate employees.		

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		Yes/ No	Comment
(ii)	They should also be fairly knowledgeable about working with people and in groups beyond mere professional capabilities. They also cannot be easily outsourced because a certain degree of cultural flow and acceptability within the organization is vital for their success.		
(iii)	The HR function is sensitive to this aspect and has developed processes to internally identify this talent.		
(iv)	There are processes to engage professionals and operatives with people having CSR as a part of their role, appropriate weightage is given to this part of their role to accomplish the annual business plan.		
(v)	The process relies on progressively nurturing employees identified and engaged in CSR events and volunteering.		
(vi)	This process extends to training, development and career path planning for key CSR employees.		

Training for leadership development, enrolment of other employees, Personal learning and Development and enhancing Role in CSR.

		Yes/ No	Comment
(i)	Facilitators are required to perform on CSR and also institutionalize CSR performance. They need to steer more than row, facilitate more than do.		
(ii)	Facilitators are good connectors bringing people and possibilities together.		
(iii)	They acquire leadership qualities to spread CSR widely across the organization and foster, enroll, mentor volunteers.		

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		Yes/ No	Comment
(iv)	The processes of training include special provisions to factor the development of leadership skills particularly encouraging facilitators to create more facilitators.		

Volunteer Scheme and evolving degrees of Volunteering

		Yes/ No	Comment
(i)	The Company enables its employees to volunteer through a system procedure and senior/ functional heads support employees to participate in programs.		
(ii)	Employees are also encouraged to learn from this work. This is achieved through a systematic scheme on Volunteering.		
(iii)	There is an official scheme on Volunteering in the Company to identify, engage, recognize any willing employee who wishes to contribute. It is based on the Competency matrix and Volunteering Profile worked out for each Company and is driven through the HR function and Community network to register Volunteers, their talents, the project, volunteering days spent.		

(III) CSR Implementation Level

Managing Change and Assessment of Social Impact.

		Yes/ No	Comment
(i)	The Company has identified the major socio-economic changes in the key communities caused by its presence/ operations/ major expansion programs.		
(ii)	The Company has a formal process of deploying its own officers or hired agency to conduct social impact surveys before installing the facility and thereafter periodically. Issues like consumption		

Illustrative CSR Checklist

		Yes/ No	Comment
	patterns, land use, rehabilitation, bio-diversity and other issues may be considered.		
(iii)	The Company has identified the possible impact on the life style of its key communities and as a responsible Company it takes corrective actions and provides alternatives mutually agreed between its management and the impacted people, if there are conflicts of interest.		
(iv)	The assessment also goes to another level of impact such as those on infrastructure (roads, traffic, power, water and so on); common facilities (hospitals, schools, housing stock); and market price-line of essentials and standards/ practices of living that could be impacted.		
(v)	In these processes the Company also takes into account all other impacts specific to their situations.		
(vi)	Specific impact assessment related to the situation is also separately addressed.		

Needs of the key community related to core competencies

		Yes/ No	Comment
(i)	The Company has identified and established its 'key communities'.		
(ii)	There is a process and a rationale to define and declare key communities and this is distinct from and beyond the idea of limiting it to neighborhoods.		
(iii)	The Company has developed approaches, processes and methods to systematically survey and assess needs of the key communities as articulated by people in that community and is fairly representative.		
(iv)	The process broadly outlines a sequence of events, periodicity and procedure of assessing felt needs.		

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		Yes/ No	Comment
(v)	This includes the arrangements with company's officers responsible, experts, agencies and NGOs for conducting the surveys with a mention of participatory techniques and methods for empirical studies and questionnaires used. This is distinct from an unplanned, extemporized and informal approach of meetings within and outside the Company to get-a-feel-of-the situation.		
(vi)	Importantly, the item includes how the Company has identified its own competencies, capacities and technologies to reach out to fulfill the needs of its key community.		
(vii)	The Company has systematically done a onetime workout and annually reviewed the specific capacity, capability, facility, technology, competency that it could reasonably afford towards meeting these needs, as against random approaches to do this work.		

Volunteering Process in the Community

		Yes/ No	Comment
(i)	The Program Officer has a specific process to identify areas for corporate volunteering.		
(ii)	The different tasks in the program are marked for volunteering and dovetailed with the Company's Volunteering scheme.		
(iii)	The Company works out provisions to encourage Volunteering within the community involving all members including other stakeholders depending on the possibility.		
(iv)	The Company has done a one-time workout and subsequent periodic reviews on the specific possibilities to encourage volunteering amongst the people and has		

Illustrative CSR Checklist

		Yes/ No	Comment
	adequate processes to stress on this area as an integral part of building community.		
(v)	This may include the participation of community by way of labor inputs that could be separately recorded for accounting purpose, but is treated and acknowledged in a collective spirit and measure of participation.		

Social Concerns addressed through Programs

		Yes/ No	Comment
(i)	<p>Child Development (Age 0-14 years): The Company is encouraged to build programs around child development covering health and nutrition to enhance the overall wellbeing of the child.</p> <p>The Company is encouraged to work with government & NGOs on systematic and long-term child development programs that will include steps to reduce infant mortality, immunization programs, all nutrition & health factors related to child development.</p>		
(ii)	<p>Community Health: This covers the general health of the community with a focus on preventive and curative measures taken to address specific health concerns identified in the local communities while working with authorities and NGOs.</p> <p>Based on specific surveys conducted by NGOs, local authorities or by the Company, programs on health are identified to not only address the immediate and curative aspects but are aimed at addressing preventive and long term issues related to health. This includes not only the process of training</p>		

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		Yes/ No	Comment
	<p>members of the community, generally, into better quality of life, but also specific training of health workers to address the issue of institutionalizing formal and informal better practices in health care.</p> <p>There are specific data and information management processes to track performance that are reliable and set into the tenets of management by fact with adequate controls to ensure that figures are traceable and verifiable with the sources.</p> <p>Where the Company has more control over the project and programs, the outcomes specific to every aspect of the intervention are monitored to depict a clear trend analysis of how the intervention helped the communities to deal with and eradicate diseases and consequently improved health.</p>		
(iii)	<p>Basic education and schooling (Age 7-14 years): This item recognizes the value of the Child's basic educational needs, upbringing and holistic development to be partly covered under formal education and also includes a variety of important interventions under informal education.</p> <p>An important consideration and emphasis is on the high quality of building, infrastructure and the sense of space created that impacts the ambience in the school recognizing the Child's right to play and the Child's need for open spaces.</p> <p>Under formal education, the Company could support programs of local government/ NGOs related to mainstreaming children, provide</p>		

Illustrative CSR Checklist

		Yes/ No	Comment
	<p>resources and facilities to improve access to education, enhance the quality of teaching methods and teaching material, advocate the inclusion and mainstreaming of special categories of children like the dyslexic and the physically challenged.</p> <p>Under the informal interventions undertaken by a Company, there could be a variety of programs, aimed at the overall development of a Child in terms of confidence building, sociability towards becoming a better person.</p> <p>The girl child needs special support and attention to enhance female literacy, education and development. Indicators such as, increase in the number of opportunities made available for girls' education, reduction in the dropout rates ensure the girl-child's progress in the community.</p> <p>There are processes to consider building and infrastructural specifications beyond the normal requirements and specifically resource on innovative architectural inputs.</p>		
(iv)	<p>Women: The role of women in the process of development is duly recognized and the Company has specific programs to support local government and NGOs in the process of empowerment, eliminating gender biases, increasing participation of women and developing leadership among them.</p> <p>This not only includes creating several arrangements, conventions, opportunities and occasions but essentially consists of skill and capacity building, creating income generation opportunities and the</p>		

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		Yes/ No	Comment
	<p>independence/ ownership by women in the stakes of development.</p> <p>While assisting authorities and NGOs in their programs focused on women, there is a special emphasis on empowerment referring to women independently taking the responsibility for and authority to make critical decisions for the community and family.</p> <p>Different forms of talent building, individual achievements and encouragement are other forms that the Company initiates and promotes.</p>		
(v)	<p>Child Labour: This item recognizes a child's right to be free from labour/ any kind of formal employment imposed by societal compulsions and reinforces the importance of fulfilling the child's educational and other developmental needs. The child has right to access minimum formal and informal methods of education and development. The child has the right to play, develop peer understanding, cultivate friends and imbibe other social skills.</p> <p>The Company has specific sensitivities towards the development of the girl-child who is being made to work at home, if not outside for earning income.</p> <p>In all, the Program Manager does appreciate the importance of some form of practical and experiential learning which is part of the educational program</p> <p>The Company is encouraged to work with government and NGOs on systematic and long term strategies to abolish/ eliminate prevalence of child labour and mainstreaming them back into the community.</p>		

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		Yes/ No	Comment
	<p>The Company also ensures that it does not employ children below 14 years of age as per the legal requirements and discourages the practice of employing children amongst its supply chain.</p> <p>There are checks on how an educational program or otherwise addresses the concern of mainstreaming the girl-child.</p> <p>There are provisions for practical work as part of holistic learning for children in balance with the curriculum.</p>		
(vi)	<p>HIV/ AIDS: The Company is encouraged to develop strategies for effectively addressing HIV/ AIDS at the workplace and to build/ strengthen programs on combating the disease at work and in the community.</p> <p>Under the workplace interventions taken up by a Company, there could be a variety of programs aimed at implementing preventive measures on HIV/ AIDS, treatment, care & support to those affected, workplace policy and guidelines on HIV/ AIDS and awareness programs for the employees.</p>		
(vii)	<p>Differently Challenged: This item covers the inclusion of persons with disability, both mental and physical, at the workplace and in the community at large with a belief that every individual without regard to his/ her disability has the ability and the potential to contribute.</p> <p>The Company provides equal opportunities for employment to the persons with disability and identifies/ develops job specifications that could accommodate the disabled.</p> <p>The Company also provides design and facilities to improve access and mobility for the disabled at the workplace. In the</p>		

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		Yes/ No	Comment
	community, people's negative attitudes towards disability could be changed by encouraging the sharing of positive experiences with disabled persons, including them in community activities and sharing resources in a more equitable manner.		
(viii)	Livelihood: The Company recognizes the value of livelihood and sustenance factors of the people in the community and contributes towards strengthening these. The Company either carries out programs or supports government agencies/ NGOs towards building capacity in the people to improve their income, provide vocational training to equip them with skills for employment/ entrepreneurship, provide training in better farming techniques, strengthen self-help groups for better savings, etc.		

Improving Attitudes/ Government Processes

		Yes/ No	Comment
(i)	This item deals with how the Company has worked towards and assisted the process of changing people's attitudes to do things differently. This is an important objective of every project.		
(ii)	The Company articulates the specific "before" and "after" changes in conventions, ways of doing things, 'rituals' and practices to establish that a significant number of people in key communities have learnt, evolved and agreed to do things differently.		
(iii)	This is to ensure that new skills and attitudes acquired by the people have been responsive to increasing sustainability of target community.		

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		Yes/ No	Comment
(iv)	As a result, how local authorities and government internalized and institutionalized this change is reflected separately in this item. This is important because changes become more institutionalized and sustainable.		

Self Reliance and Sustenance

		Yes/ No	Comment
(i)	The Company/ project officers identify the specific areas or state of dependencies in terms of skills, knowledge, confidence, experience, marketing talents or generating and using income. These dependencies are articulated as opportunities for improvement in terms of action and correction.		
(ii)	The Program Officer identifies parameters on self-reliance in a specific situation and may include the capacity gaps, training, awareness, and ability to assume responsibility, certain values that go to build a community that is free to act on its own. This is distinct from addressing needs of people on an ongoing basis without minimizing dependence.		
(iii)	The intervention has in place specific factors that can make the various corrective actions sustainable in future without excessive dependency on the Company. It is important for programs to indicate a cut-off date for withdrawal or resources committed for specific periodicity or annual time frames.		
(iv)	The parameters for sustenance are those such as new arrangements, systematic partnerships, renewed income generating capability, better networking, more resourcefulness, revived leadership, new		

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		Yes/ No	Comment
	conventions and practices that enable the community to continuously perform on its own to meet the required/ growing levels of performance.		

Learning and Innovation Transfer

		Yes/ No	Comment
(i)	The program captures its learning and innovations directly related to the project, meeting objectives and goals.		
(ii)	The new ways of conducting activities (performing eye operations, treating patients, teaching methods in schools or use of fertilizers, etc.) get documented for future use and for others. Processes are developed to evolve/ create 'Models' for meaningful deployment out of trends, information and data sources.		
(iii)	This item is devoted to depict the learning and new outcomes from experiences related to managing and organizing the activity, with a hope that others can benefit from the experience.		
(iv)	As facilitators of a development process, the project owners of the Company learn new ways to organize, reduce costs, become more effective and enhance performance.		
(v)	The company has developed self-assessment processes so that facilitators could be encouraged to spend time and be helped to consciously align themselves.		
(vi)	Development is a process of all-round learning and is about building new perspectives for everybody involved.		

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(vii)	Personal learning and revelations that arise out of an experience are essential aspects provided for in this item wherein facilitators openly declare their revelations in these experiences, if any.		
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Effective Management and Good Governance

		Yes/No	Comment
	<p>Leadership: Leadership is an important constituent of governance focused on creating vision, sensitive to and balancing stakeholder interests, stimulating innovation and learning and setting long and short-term direction. Leadership is also about minimizing hierarchy, creating space and empowerment, valuing partners and cultivating a respect for people and a systems perspective. Leadership is about making ordinary people into entrepreneurs, to the extent possible.</p> <p>The process and program objectives specifically include Leadership development in the community. Formal and informal leadership are considered in evolving the structure and role of leaders. Core values and perspectives are converged upon; roles for key stakeholders identified and expectations from the community are explicit.</p> <p>There is no excessive hierarchy in leadership style evident when verified in responses from a cross section of the people.</p> <p>In an intervention, talent and skill is transformed into a product/service and marketable.</p>		

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	<p>Participation: Inclusion is a key constituent of people oriented development. Contemporary communities are sensitive to recognize, to engage and to balance the interests of multiple stakeholders in a program. Governance is manifest in the resolution of 'conflict', reconciling differences, establishing dialogue, enlisting cooperation and so on.</p> <p>There are a number of conventions, practices and arrangements such as, meetings, committees, groups and mechanisms to build the sensitivities on participatory governance.</p> <p>There are processes by which all forms of synergies and innovations evolved from people and stakeholders can be considered and internalized for action, involvement and meaningful engagement of stakeholders and people.</p>		
	<p>Transparency: Sharing information and the 'thinking' process in development are key to better governance. It encourages management by fact and builds a perspective for systems in running projects. Conventions, meetings, practices for generating data, collating information and applying 'thought processes' towards decision-making are provided to progressively assure openness.</p> <p>Data, information and resulting decisions are linked, fact-based, systems driven through a set of processes and procedures. There are control mechanisms to guarantee a high level of traceability and verifiability.</p>		

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	<p>Tolerance to new ideas: This is an important tenet of good governance. It is about creating a dialogue among competing or conflicting interests rather than confrontation. Modes of reconciliation and collaboration help build greater levels of tested partnerships capable of progressively handling sensitive and difficult situations in developing community. There is a process to articulate and communicate more continuously on the importance of tolerance. Sessions are held on building awareness in the community about the integrity underlying contest, challenge and confrontation inherent in a new idea.</p> <p>While conducting meetings, discussions and debates, stress is laid on responsibility (more than rights) to create meaningful alternatives. [There is a practice or process to deal with rejection of an idea giving a reasonable justification, where necessary.]</p>		
	<p>Accountability: As a partner in development, company's contribution to any program would be to assist its leaders to recognize the importance of service delivery with high quality response.</p> <p>There is a process to enhance the extent of accountability in all service delivery involved in programs. This process includes establishing norms and standards of expectations. It further monitors that expectations are fulfilled and there is a reasonable consequence for default. In word and spirit, an attempt is made to ensure that what people are led to expect shall come to pass.</p>		

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	<p>Progressively there is a process to consider a consequence to non-performance in a major case of default.</p>		
	<p>Innovation: Company programs aim at experimentation and assume the form of pilot studies to establish success of new ideas. It may simplify the government's routine tasks, make them more manageable and convert broader goals and ideas into doable and foster innovation. Importantly, programs are also aimed at encouraging a sense of enterprise in the activity and cultivate entrepreneurship among leaders. There are provisions in program objectives to foster innovation, apply new technology, introduce better methods of work and improve the overall quality of programs. There are specific processes and conventions to focus on innovation to meet gaps and other situations of constraints limiting progress. Program leaders are encouraged to institute specific schemes, quiz, competitions to give ideas and be acknowledged for providing solutions and innovating alternatives.</p>		
	<p>Effectiveness and efficiency: The business community has a major role in improving effectiveness and efficiency of social programs. It is common knowledge that businesses have helped the non-profits to convert their mission into performance. Company programs make a special effort to deploy managerial and technical expertise to enhance the performance and quality of programs delivery.</p>		

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	<p>Results: The distinctions brought out by company social interventions are not only in terms of sizable impact but in terms of new perspectives and distinctions accomplished to bring about lasting human achievement. Company facilitators always use the above and other parameters and strive to measure and enhance the quality of life as a result of their interventions. And, they forever endeavor to build a high-trust society.</p> <p>Therefore, the result of every company program is a grand journey towards creating a deeper meaning and higher purpose to everyday economic and social activity to build self-reliant community.</p> <p>There is a process that permeates throughout the program to bring about a convergence on the key distinctions, new perspectives that brought about more lasting benefits to the people.</p> <p>Goal setting processes, monitoring and review mechanisms are all devoted to measuring the developmental meanings and human achievements in the activity. Conscious effort helps generate the extent of dependability, credibility and trust built in the course of the intervention.</p>		
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(IV) Health and Safety (H&S)

		Yes/No	Comment
(i)	Does senior management demonstrate their commitment to Health & Safety e.g., H&S policy endorsed by senior management?		
(ii)	Does the company have a formal H&S system?		
(iii)	Does the company have the appropriate H&S resource (eg, H&S manager, nurse, first aiders, fire fighters, etc)		

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		Yes/No	Comment
(iv)	Do workers have the appropriate information, instruction and training on H&S issues?		
(v)	Is there a fully operational Health & Safety Committee (composition, frequency of meetings, minutes of meetings, etc)?		
(vi)	Is there a fully operational accident investigation and reporting system (management monitoring, investigation reports, close out of actions, etc)?		
(vii)	Are the appropriate health systems in place (pre-employment medicals/ health surveillance, access to doctor/nurse etc)?		
(viii)	Is the company appropriately prepared for a fire or other emergency (alarms, sprinklers, fire extinguisher, drills, etc)?		
(ix)	Does the company have the appropriate controls in place to manage risks from moving machinery (guards, interlocks, lock-out /tagout, etc)?		
(x)	Is there a work permit system in place – If yes what does it cover?		
(xi)	Are hazardous chemicals/materials used (eg., solvents, dusts, asbestos, pesticides) – please provide detail?		

Environment

	Key Issue	Yes/No	Comment
(i)	Does the company have to comply with an environmental permit? If yes, does it?		
(ii)	Does the company have a formal environmental management system? (e.g., ISO 14001)		
(iii)	Does the company meet its water effluent consent? How often does it test for key parameters, e.g., BOD/COD, pH, SS, oil?		

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(iv)	Does the company meet the requirements of any air emissions consent? Does it test for key parameters, e.g., SO ₂ , NO _x , particulates?		
(v)	Is the nature of activities likely to affect air quality at the workplace, on the site and/or in the surrounding area e.g., plant and vehicle emissions, dust?		
(vi)	Are large quantities of waste, or hazardous wastes, produced? What is the disposal route?		
(vii)	Does the company use/make Ozone depleting substances e.g., CFCs? How are they being phased out?		
(viii)	Is the company a significant energy user? Are there options for energy efficiency improvements?		
(ix)	Is the company a significant water user? Are there options for water efficiency improvements, e.g. re-cycle?		
(x)	Are there noise and/or other nuisances? If so, please detail		

Labour

		Yes/No	Comment
	Compensation/ Working Hours		
(i)	Is the basic wage level (unskilled workers) higher than the minimum wage?		
(ii)	Is the average monthly overtime within the limits set by national/ international (e.g., ILO) standards?		
(iii)	Is there a premium rate for overtime payment?		
	Freely Chosen Employment		
(iv)	Does the employer hold workers' identity documents?		
(v)	Are workers provided with employment contracts including any requirements for overtime work?		
(vi)	Do workers have to pay a deposit when they		

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		Yes/No	Comment
	start work? If yes, is this refundable?		
(vii)	If migrant labour is used locally, are there contractual terms which limit workers' ability to leave their jobs before the contract expires?		
	Consultative Workplace Structures		
(viii)	Are workers members of a labour union or an alternate worker association?		
(ix)	Have workers been provided with any form of induction/training regarding their working conditions?		
	Non-Discrimination		
(x)	What is the ratio of female to male employees?		
(xi)	Are there more women (as compared to men) employed as contract workers?		
(xii)	Are crèche or similar facilities provided to women workers?		
(xiii)	Does the company have a policy on sexual harassment?		
	Non local work force/ access to facilities		
(xiv)	Will the business import a non local work force requiring accommodation and facilities for more than 3 months?		
(xv)	Do existing or proposed facilities or services (housing, education, food, water, health) give cause for concern?		

Supply Chain

		Yes/ No	Comment
(i)	Are any aspects of the company's supply chain of particular concern in relation to environmental and social issues?		
(ii)	Does the company have a Code of Conduct for suppliers?		

Appendix II

AA1000 Assurance Standard 2008

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Foreword

i. Evolution of the AA1000 Assurance Standard

The first edition of the AA1000 Assurance Standard was published in 2003 as the world's first sustainability assurance standard. It was developed to assure the credibility and quality of sustainability performance and reporting, and was the result of an extensive, two-year, worldwide consultation involving hundreds of organisations from the professions, the investment community, non-governmental organisations (NGOs), labour and business. The AA1000AS (2003) superseded the information on sustainability assurance provided in the AA1000 Framework Standard published in 1999. The 2003 edition was supported by a Guidance Note on the application of the principles; and a User Note including five case studies on the application of the principles during assurance engagements. The 2008 edition of the AA1000 Assurance Standard, AA1000AS (2008), is the second edition of Accountability's assurance standard. It draws on the growing body of practice and experience in sustainability assurance and supersedes all previous versions published by Accountability.

ii. Development process

The AA1000AS (2008) was developed using a broad-based, multi-stakeholder process. A period of initial research that included a widely broadcast e-survey was followed by face-to-face consultations in 20 countries with a comprehensive range of stakeholders and a series of workshops with specific stakeholder groups. All of the input received was considered by the Accountability Standards Technical Committee, which prepared a draft standard for public review. There were three periods of public review of 60-90 days each. All public review took the form of collaborative drafting with full transparency using wiki software. Between each of these periods of public review and following the final period, the Accountability Standards Technical Committee reviewed and revised the draft. The final draft was agreed by the Accountability Standards Technical Committee and submitted to the Accountability Operating Board which approved it for publication.

The evolving nature of earning in the standards field means that the process of developing standards is ongoing. By continually engaging with the AA1000AS (2008) users and stakeholders, AccountAbility is able to reflect learning in the form of additional guidance and revisions to the standard. AccountAbility invites you to share your AA1000AS (2008) experiences with us so that we can continue to improve the AA1000 Series.

Introduction

i. Aims and benefits of AA1000AS sustainability assurance

AA1000AS (2008) assurance provides a platform to align the non-financial aspects of sustainability with financial reporting and assurance. It provides a means for assurance providers to go beyond mere verification of data, to evaluate the way reporting organisations manage sustainability, and to reflect that management and resulting performance in its assurance statements.

AA1000AS (2008) assurance provides a comprehensive way of holding an organisation to account for its management, performance and reporting on sustainability issues by evaluating the adherence of an organisation to the AA1000 Accountability Principles and the quality of the disclosed information on sustainability performance.

AA1000AS (2008) assurance also provides a means to capture and place in context a wide range of other verification and certification schemes that deal with specific dimensions of sustainability such as those for greenhouse gas emissions, environmental management systems, sustainable forest management or fair trade labeling.

The information found in sustainability reporting provides the starting point for AA1000AS (2008) assurance, as sustainability reporting is designed to provide stakeholders with sufficient information to understand the sustainability performance of an organisation and to make informed decisions.

Credibility is a prerequisite for effective sustainability reporting. Credibility can be considerably enhanced through independent external assurance, using accepted professional standards. Reporting organisations and their stakeholders increasingly accept that robust independent external assurance is a key way of increasing the credibility and effectiveness of their reporting, and ultimately their performance.

ii. Scope of the standard

The standard covers:

- the use of the standard;
- accepting an engagement where the standard is used, and performing an engagement in accordance with the standard.

AA1000 Assurance Standard 2008

It relies on mandatory reference to the AA1000 Accountability Principles Standard (2008) and is supported by guidance provided in the *Guidance for the Use of AA1000AS (2008)*.

1. Purpose of the AM 1000AS (2008)

The AA1000AS (2008) is an internationally accepted, freely available standard that provides the requirements for conducting sustainability assurance.

Sustainability assurance in accordance with the AA1000AS (2008) evaluates and provides conclusions on:

- the nature and extent of adherence to the AA1000 Accountability Principles, and where applicable
- the quality of publicly disclosed information on sustainability performance.

This standard is primarily intended for use by sustainability assurance practitioners and providers. This standard may also be useful to report preparers seeking assurance in accordance with this standard, as well as to users of sustainability assurance reports and statements and other standards developers.

Note: The AA1000 Accountability Principles are presented in the AA1000 Accountability Principles Standard.

2. Using the AA1000AS (2008)

2.1. Types of AA1000AS (2008) engagement

There are two types of AA1000AS (2008) sustainability assurance engagement: Type 1 - Accountability Principles

The assurance provider shall evaluate the nature and extent of the organisation's adherence to all three AA1000 Accountability Principles.

Assurance on the AA1000 Accountability Principles is intended to give stakeholders assurance on the way an organisation manages sustainability performance, and how it communicates this in its sustainability reporting, without verifying the reliability of the reported information.

The assurance provider evaluates publicly disclosed information, the systems and processes the organisation has in place to ensure adherence to the principles and the performance information that demonstrates adherence. For Type 1 assurance, the evaluation of performance information does not require the assurance provider to provide conclusions on the reliability of the performance information. Rather, it uses information on performance as a source of evidence when evaluating adherence to the principles. An assurance provider is not restricted in the types of information it seeks as evidence.

The evaluation does not need to be based on explicit management assertions about adherence to the Principles, although an assertion based approach to assurance accords with the AA1000AS (2008).

For assurance on adherence to the AA1000 Accountability Principles an assurance provider provides findings and conclusions relating to the nature and extent of an organisation's adherence to the Principles.

Type 2 - Accountability Principles and Performance Information

The assurance provider shall evaluate the nature and extent of the organisation's adherence to the AA1000 Accountability Principles, as for Type 1. When conducting a Type 2 engagement, the assurance provider shall also evaluate the reliability of specified sustainability performance information. Specified sustainability performance information is the information the assurance provider and the reporting organisation agree to include in the scope of the assurance engagement. Specified information is selected based on the materiality determination and needs to be meaningful to the intended users of the assurance statement. An assurance engagement

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that only includes an evaluation of the reliability of specified publicly disclosed sustainability performance information is not in accordance with the AA1000AS (2008).

The evaluation of the reliability of specified sustainability performance information is based on explicit management assertions about sustainability performance and includes a review of their completeness and accuracy.

For assurance on specified sustainability performance information an assurance provider provides findings and conclusions relating to the reliability of the sustainability performance information.

If an organisation provides in its report an assertion concerning compliance with a specified reporting framework, and compliance with this reporting framework is included with the scope of the specified sustainability performance information to be assured, the assurance provider provides findings and conclusions on compliance with the reporting framework.

2.2. Levels of AA1000AS (2008) assurance

An assurance engagement may be carried out to provide a high level of assurance or a moderate level of assurance. Since different subject matter may be addressed in one assurance engagement, a high level of assurance may be provided for some subject matter while a moderate level of assurance may be provided for other subject matter in the same assurance statement.

The following table outlines the characteristics of high and moderate assurance and the related assurance procedures.

Characteristics of High and Moderate assurance

	High assurance	Moderate assurance
Objective	The assurance provider achieves high assurance where sufficient evidence has been obtained to support their statement such that the risk of their conclusion being in error is very low but not zero. High assurance will provide users with a high level of confidence in an organisation's disclosures	The assurance provider achieves moderate assurance where sufficient evidence has been obtained to support their statement such that the risk of their conclusion being in error is reduced but not reduced to very low but not zero. Moderate assurance will enhance the user's

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	on the subject matter it refers to.	confidence in an organisation's disclosures on the subject matter it refers to.
Evidence characteristics	<p>Unrestricted</p> <p>For the principles Evidence from internal and external sources and parties including stakeholders; evidence gathering at all levels of the organisation.</p> <p>For the specified performance information Extensive depth of evidence gathering including corroborative evidence and sufficient sampling at lower levels in the organisation. Emphasis is on the reliability of the information.</p>	<p>Less extensive</p> <p>For the principles Evidence from internal sources and parties; evidence gathering generally restricted to corporate/management levels in the organisation.</p> <p>For the specified performance information Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organisation as necessary. Emphasis is on the plausibility of the information.</p>
Statement	<p>For principles Conclusion on the nature and extent of adherence relating to disclosures by the organisation.</p> <p>For the specified performance information Conclusion on reliability.</p>	<p>For principles Conclusion, based on work undertaken, on the nature and extent of adherence relating to disclosures by the organisation.</p> <p>For the specified performance information Conclusion on reliability based on procedure undertaken</p>

2.3. References to the use of the standard

Only assurance engagements that meet the requirements of this standard shall state that assurance has been provided in accordance with the AA1000AS (2008).

2.4. Relationship to other standards and guidance

The AA1000APS (2008) provides the criteria for evaluating adherence to the AccountAbility Principles.

Conventions, legal requirements, standards, guidelines and other frameworks may provide criteria to be used to evaluate sustainability performance information. These may be designed for specific performance issues, systems, processes, physical characteristics or behaviours. These may be subject matter or systems specific and may have associated verification or certification programs. In such cases it may be acceptable to use these verifications and certifications as evidence.

The AA1000AS (2008) is supported by a Guidance Note, Guidance for the use of AA1000AS (2008) which is intended to be used by assurance practitioners, reporting organisations seeking assurance and stakeholders using assurance statements.

3. Accepting an AA1000AS (2008) Engagement

3.1. Scope of the engagement

The assurance provider shall agree the scope of the engagement with the reporting organisation based on the requirements in clause 2.1. The agreement shall be in writing.

When accepting a Type 2 engagement the assurance provider shall take into consideration the material issues so that the specified performance information covered by the assurance engagement is meaningful to the intended user of the assurance statement.

Before accepting an engagement the assurance provider shall be satisfied that the requirements of the AA1000AS (2008) can be met and that the reporting organisation is acting in good faith. In particular, the assurance provider shall be satisfied that the engagement subject matter is appropriate, and the practitioner will have access to sufficient evidence to support findings and conclusions.

3.1.1. Disclosures covered

The assurance provider shall identify and agree with the reporting organisation on all disclosures (e.g. reports and other forms of communication) to be covered by the assurance engagement.

3.1.2. Suitable criteria

The assurance provider shall use the criteria in AA1000APS (2008) to evaluate adherence to the Accountability Principles.

The assurance provider shall not accept a Type 2 engagement unless there are suitable criteria for evaluating specified performance information.

Suitable criteria are those that are relevant, complete, reliable, neutral and understandable. All criteria shall be publicly available.

Criteria can be either established or specifically developed. Established criteria may be found in regulatory requirements, as well as other standards, guidelines or frameworks and have been developed by an independent peer reviewed or multi-stakeholder processes. The preference is to use established criteria.

3.1.3. Level of assurance

The assurance provider shall agree the level of assurance to be provided with the reporting organisation. This may be a combination of levels, for example high or moderate in relation to the principles (Type 1 and Type 2) and high or moderate, or a combination, for a Type 2 engagement on specified performance information. The levels shall be documented in the assurance agreement.

The assurance provider shall be sufficiently confident that the agreed level is achievable (e.g. that systems, processes and evidence exist) before the engagement begins. The engagement shall be planned and conducted to obtain sufficient evidence to achieve the agreed level.

The assurance provider shall not agree to a change to a lower level of assurance during an engagement without good reason. This change shall be explained in the assurance statement.

The assurance statement shall reflect the agreed level of assurance for the engagement. If, for any reason, this is not achieved during the engagement, the reasons shall be explained in the assurance statement.

3.2. Independence and impartiality

An assurance provider shall not accept an engagement if it will be unduly limited by its relationship with the organisation or its stakeholders in reaching and publishing an independent and impartial assurance statement.

The assurance provider shall make a public statement of independence and impartiality that includes disclosure of:

- any relationships (including financial, commercial, preparation of the report, governance and ownership positions) that could be perceived to affect the assurance providers ability to provide an independent and impartial statement, and
- any mechanisms or professional codes of practice designed to ensure independence to which the assurance provider or assurance practitioner are bound.

3.3. Competence

An assurance provider shall not accept an engagement if it does not possess the necessary competencies.

Assurance providers shall ensure that the individual assurance practitioners and organisations, including external experts, involved in an assurance engagement are demonstrably competent.

The assurance provider shall be prepared, given the absence of any undue risk and upon request by a reporting organisation, to make information available to interested stakeholders about the competencies of the assurance practitioners involved in its assurance engagement.

3.3.1. Assurance practitioner competence

The assurance provider shall ensure that the individual assurance practitioners, as well as the external experts, involved in the assurance engagement are, as a team, demonstrably competent in the following areas as a minimum:

- the Accountability Principles;
- application of reporting and assurance practices and standards;
- sustainability subject matter (including the specific subject matter of the engagement), and
- stakeholder engagement.

3.3.2. Assurance provider competence

The organisational assurance provider shall be able to demonstrate adequate institutional competencies.

Competencies shall include:

- assurance oversight mechanism to ensure quality of provision;
- understanding of the legal aspects of the assurance process, and infrastructure and systems to ensure quality delivery of assurance.

3.4. Due care

Assurance providers and individual assurance practitioners shall exercise due care at all times in accordance with the needs of the users of their assurance statement, the importance of the task and the competencies required.

3.5. Engagement Agreement (contract)

The terms and conditions of the engagement shall be agreed in writing.

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The use of existing organisational procurement practices and agreements shall be acceptable if at a minimum an agreement covers:

- responsibilities of the reporting organisation and assurance provider;
- subject matter;
- scope (including Type and Level), and
- the intention to provide assurance in accordance with the AA1000AS (2008).

4. Conducting an AA1000AS (2008) Engagement

4.1. Planning the engagement

The assurance provider shall plan the assurance engagement so that it will be performed effectively. Planning involves developing a clear strategy for evidence gathering and evaluation for the agreed scope.

Adequate planning ensures a sufficiently comprehensive, robust and balanced assurance process. Planning is an iterative process and will occur throughout the engagement as an assurance provider may have to revise its plan due to evidence obtained.

The nature and extent of the planning process will vary depending on the size and complexity of the engagement. In planning an assurance provider shall consider:

- the tasks and activities to be performed;
- the evidence gathering requirements, sampling methods and associated risks;
- the resources requirements, and
- the schedule for the engagement.

The assurance provider shall document this in an engagement plan that includes as a minimum:

- objectives of the engagement;
- assurance standard/s to be used;
- roles and relationships;
- scope of the engagement;
- criteria to be used;
- level of assurance;
- assurance strategy, including:
- risk assessment, and
- evidence requirements;
- tasks and activities, including:
- gathering methods;
- resources requirements, and
- schedule.

4.2. Performing the engagement

The assurance provider shall perform the engagement with an attitude of professional scepticism. This means assessing and questioning the validity of evidence obtained and the implications of this evidence.

4.2.1. Evaluation of adherence to the AA1000 Accountability Principles

During the assurance engagement the assurance provider shall evaluate and report findings and conclusions on the nature and extent of an organisation's adherence to the AA1000 AccountAbility Principles (Inclusivity, Materiality and Responsiveness). The assurance provider shall use the criteria in the AA1000APS (2008).

Minimum evidence gathering for evaluating adherence to the AA1000 Accountability Principles at a moderate level of assurance shall include:

- understanding and testing on a sample basis the processes used to adhere to and evaluate adherence to the Accountability Principles;
- inquiring of management, including senior management at executive and functional levels, and of relevant management responsible for the day to day management of sustainability, about the effectiveness of processes used to adhere to the AA1000 Accountability Principles;
- observing and inspecting management practices, process testing and evidence gathering across the organisation on a sample basis, and
- collecting and evaluating documentary evidence and management representations that support adherence to the principles.

For a high level of assurance the assurance provider shall also seek more extensive evidence in all areas as well as corroborative evidence where available, including through direct engagement with stakeholders.

For a high level of assurance the assurance provider shall obtain sufficient evidence such that the risk of their conclusion being in error is very low but not zero.

Further guidance can be found in the Guidance Note, *Guidance for the use of AA1000AS (2008)*.

4.2.2. Evaluation of specified sustainability performance information

If included in the scope of the assurance engagement, the assurance provider shall evaluate and report findings and conclusions on the reliability of specified sustainability performance information.

The assurance provider shall evaluate the systems, processes, information and data used to support sustainability performance disclosures on the issues agreed for inclusion in the scope of the assurance engagement. The scope of the evaluation of sustainability performance information shall state the performance information to be concluded upon, which may include compliance with a reporting framework if specified.

The assurance provider shall evaluate the quality of the public disclosures and the underlying systems, processes, information and data.

Minimum evidence gathering for evaluating the reliability of specified performance information at a moderate level of assurance shall include:

- understanding the management of specified performance information and information collection processes;
- reviewing the design of systems and processes for managing specified information;
- inquiring on a sample basis of individuals with overall responsibility for information measurement and collection (from source to aggregation) and reporting about the information collection processes;
- carrying out analytical procedures (e.g. trend analysis);
- observing and inspecting on a sample basis management practices, process testing and evidence gathering (from source to aggregation);
- limited testing of detail on a sample basis (e.g. re-performance of calculations);
- collecting and evaluating documentary evidence and management representations to support the assurance work undertaken, and
- confirming that what is disclosed is consistent with the findings of the assurance process.

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For a high level of assurance the assurance provider shall also seek more extensive evidence in all relevant areas as well as corroborative evidence where available.

For a high level of assurance the assurance provider shall obtain sufficient evidence such that the risk of their conclusion being in error is very low but not zero.

Further guidance can be found in the Guidance Note, *Guidance for the use of AA1000AS (2008)*.

4.2.3. Limitations

Any limitations in the scope of the disclosures on sustainability, the assurance engagement or the evidence gathering shall be addressed in the assurance statement and reflected in the report to management if one is prepared.

Where the scope of a disclosure is limited the assurance provider shall indicate in its statement this limitation and the need for communications to address other sustainability issues and stakeholders.

The assurance provider shall determine if limitations encountered during the engagement make it impossible to continue the engagement, and shall take appropriate action.

4.2.4. Documentation

The assurance provider shall document evidence, retaining necessary copies of relevant evidence. The assurance provider shall also document the assurance plan, material assessments and judgements made, and conclusions.

4.3. Reporting by the assurance provider

4.3.1. Assurance statement

The result of the assurance process is a set of findings, conclusions and recommendations provided by the assurance provider in a publicly issued assurance statement.

Any limitations to the scope of a disclosure or the assurance engagement shall be addressed in the assurance statement.

To claim accordance with the AA1000AS (2008) in the assurance statement the assurance provider shall meet all the requirements of this standard, including the requirements for the assurance statement.

An AA1000AS (2008) assurance statement may also include any other legally required statements that may apply as well as the requirements of any standard used during the engagement.

An assurance statement shall include the following information as a minimum:

- intended users of the assurance statement;
- the responsibility of the reporting organisation and of the assurance provider;
- assurance standard/s used, including reference to the AA1000AS (2008);
- description of the scope, including the Type of assurance provided;
- description of disclosures covered;
- description of methodology;
- any limitations;
- reference to criteria used;
- statement of level of assurance;
- findings and conclusions concerning adherence to the AA1000 Accountability Principles of Inclusivity, Materiality and Responsiveness (in all instances);
- findings and conclusions concerning the reliability of specified performance information (for Type 2 assurance only);
- observations and/or recommendations;
- notes on competencies and independence of the assurance provider;
- name of the assurance provider, and
- date and place.

4.3.2. Report to Management

If agreed in the engagement agreement, the assurance provider shall prepare a report to management.

The report to management shall not communicate materially different conclusions than those found in the publicly available assurance statement. Where relevant, the report to management shall include any limitations in the scope of the disclosures on sustainability, the assurance engagement or the evidence gathering.

5. Definitions

Assurance

The term usually describes the methods and processes employed by an assurance provider to evaluate an organisation's public disclosures about its performance as well as underlying systems, data and processes against suitable criteria and standards in order to increase the credibility of public disclosure. Assurance includes the communication of the results of the assurance process in an assurance statement.

Assurance engagement

An engagement in which an assurance provider evaluates and expresses a conclusion on an organisation's public disclosure about its performance as well as underlying systems, data and processes against suitable criteria and standards in order to increase the credibility of the information for the intended audience.

Assurance practitioner

An individual who is qualified to provide assurance services.

Note: An assurance practitioner will typically be a member of a team and work for an assurance provider.

Assurance provider

An organisation providing assurance services.

Note: For an assurance engagement, an assurance provider will assemble a team of competent assurance practitioners and other experts.

Reporting organisation

An organisation that is responsible for the preparation and publication of public disclosures on sustainability issues and that engages an assurance provider to undertake an assurance engagement relating to the sustainability report.

Specified performance information

Performance statements or data about sustainability issues or processes that have been included in the scope of a Type 2 assurance engagement.

Stakeholder

Stakeholders are those individuals, groups of individuals or organisations that affect and/or could be affected by an organisation's activities, products or services and associated performance.

Note: This does not include all those who may have knowledge of or views about the organisation. Organisations will have many stakeholders, each with distinct types and levels of involvement, and often with diverse and sometimes conflicting interests and concerns.

Stakeholder engagement

The strategies and processes used by the organisation to engage with relevant stakeholders and the results of the engagement.

Sustainability assurance

Assurance of public disclosures on sustainability performance as well as underlying systems, data and processes against suitable criteria and standards.

Sustainability assurance engagement

An assurance engagement in relation to public disclosure on sustainability performance.

Sustainable Development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Source: 1987 report of the Brundtland Commission: The World Commission on Environment and Development.

Appendix III

International Standard on Assurance Engagements 3000

ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

(Effective for assurance reports dated on or after January 1, 2005)

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International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the application and authority of ISAEs.

Introduction

1. The purpose of this International Standard on Assurance Engagements (ISAE) is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice (for purposes of this ISAE referred to as "practitioners") for the performance of assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs).

2. This ISAE uses the terms "reasonable assurance engagement" and "limited assurance engagement" to distinguish between the two types of assurance engagement a practitioner is permitted to perform. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement¹ as the basis for a positive form of expression of the practitioner's conclusion. The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.

Relationship with the Framework, Other ISAEs, ISAs and ISREs

3. The practitioner should comply with this ISAE and other relevant ISAEs when performing an assurance engagement other than an audit or review of historical financial information covered by ISAs or ISREs. This ISAE is to be read in the context of the "International Framework for Assurance Engagements" (the Framework), which defines and describes the elements and objectives of an assurance engagement, and identifies those engagements to which ISAEs apply. This ISAE has been written for general application to assurance engagements other than audits or reviews of historical financial information covered by ISAs or ISREs. Other ISAEs may relate to topics that apply to all subject matters or be subject matter specific.

¹ Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

Although ISAs and ISREs do not apply to engagements covered by ISAEs, they may nevertheless provide guidance to practitioners.

Ethical Requirements

4. The practitioner should comply with the requirements of Parts A and B of the *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants (the IESBA Code).

5. The IESBA Code provides a framework of principles that members of assurance teams, firms and network firms use to identify threats to independence,²² evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised.

Quality Control

6. The practitioner should implement quality control procedures that are applicable to the individual engagement. Under International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,"³ a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances. In addition, elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client

² If a professional accountant not in public practice, for example an internal auditor, applies ISAEs, and (a) the Framework or ISAEs are referred to in the professional accountant's report; and (b) the professional accountant or other members of the assurance team and, when applicable, the professional accountant's employer, are not independent of the entity in respect of which the assurance engagement is being performed, the lack of independence and the nature of the relationship(s) with the assurance client are prominently disclosed in the professional accountant's report. Also, that report does not include the word "independent" in its title, and the purpose and users of the report are restricted.

³ ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" was issued in February 2004. Systems of quality control in compliance with ISQC 1 are required to be established by June 15, 2005.

relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

Engagement Acceptance and Continuance

7. **The practitioner should accept (or continue where applicable) an assurance engagement only if the subject matter is the responsibility of a party other than the intended users or the practitioner.** As indicated in paragraph 27 of the Framework, the responsible party can be one of the intended users, but not the only one. Acknowledgement by the responsible party provides evidence that the appropriate relationship exists, and also establishes a basis for a common understanding of the responsibility of each party. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of an acknowledgement of responsibility, the practitioner considers:

- (a) Whether it is appropriate to accept the engagement. Accepting it may be appropriate when, for example, other sources, such as legislation or a contract, indicate responsibility; and
- (b) If the engagement is accepted, whether to disclose these circumstances in the assurance report.

8. **The practitioner should accept (or continue where applicable) an assurance engagement only if, on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the practitioner to indicate that the requirements of the IESBA Code or of the ISAEs will not be satisfied.** The practitioner considers the matters in paragraph 17 of the Framework and does not accept the engagement unless it exhibits all the characteristics required in that paragraph. Also, if the party engaging the practitioner (the "engaging party") is not the responsible party, the practitioner considers the effect of this on access to records, documentation and other information the practitioner may require to complete the engagement.

9. **The practitioner should accept (or continue where applicable) an assurance engagement only if the practitioner is satisfied that those persons who are to perform the engagement collectively possess the necessary professional competencies.** A practitioner may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialized skills and knowledge beyond those ordinarily possessed by an individual practitioner (see paragraphs 26-32).

Agreeing on the Terms of the Engagement

10. **The practitioner should agree on the terms of the engagement with the engaging party.** To avoid misunderstandings, the agreed terms are recorded in an engagement letter or other suitable form of contract. If the engaging party is not the responsible party, the nature and content of an engagement letter or contract may vary. The existence of a legislative mandate may satisfy the requirement to agree on the terms of the engagement. Even in those situations an engagement letter may be useful for both the practitioner and engaging party.

11. **A practitioner should consider the appropriateness of a request, made before the completion of an assurance engagement, to change the engagement to a non-assurance engagement or from a reasonable assurance engagement to a limited assurance engagement, and should not agree to a change without reasonable justification.** A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, ordinarily will justify a request for a change in the engagement. If such a change is made, the practitioner does not disregard evidence that was obtained prior to the change.

Planning and Performing the Engagement

12. **The practitioner should plan the engagement so that it will be performed effectively.** Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be performed and the reasons for selecting them. Adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner to properly assign work to engagement team members, and facilitates their direction and supervision and the review of their work. Further, it assists, where applicable, the coordination of work done by other practitioners and experts. The nature and extent of planning activities will vary with the engagement circumstances, for example the size and complexity of the entity and the practitioner's previous experience with it. Examples of the main matters to be considered include:

- The terms of the engagement.

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- The characteristics of the subject matter and the identified criteria.
- The engagement process and possible sources of evidence.
- The practitioner's understanding of the entity and its environment, including the risks that the subject matter information may be materially misstated.
- Identification of intended users and their needs, and consideration of materiality and the components of assurance engagement risk.
- Personnel and expertise requirements, including the nature and extent of experts' involvement.

13. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the practitioner may need to revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of further procedures.

14. **The practitioner should plan and perform an engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated.** An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party.

15. **The practitioner should obtain an understanding of the subject matter and other engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures.**

16. Obtaining an understanding of the subject matter and other engagement circumstances is an essential part of planning and performing an assurance engagement. That understanding provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example when:

- Considering the characteristics of the subject matter;
- Assessing the suitability of criteria;

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- Identifying where special consideration may be necessary, for example factors indicative of fraud, and the need for specialized skills or the work of an expert;
- Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
- Developing expectations for use when performing analytical procedures;
- Designing and performing further evidence-gathering procedures to reduce assurance engagement risk to an appropriate level; and
- Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

17. The practitioner uses professional judgment to determine the extent of the understanding required of the subject matter and other engagement circumstances. The practitioner considers whether the understanding is sufficient to assess the risks that the subject matter information may be materially misstated. The practitioner ordinarily has a lesser depth of understanding than the responsible party.

Assessing the Appropriateness of the Subject Matter

18. The practitioner should assess the appropriateness of the subject matter.

An appropriate subject matter has the characteristics listed in paragraph 33 of the Framework. The practitioner also identifies those characteristics of the subject matter that are particularly relevant to the intended users, which are to be described in the assurance report. As indicated in paragraph 17 of the Framework, a practitioner does not accept an assurance engagement unless the practitioner's preliminary knowledge of the engagement circumstances indicates that the subject matter is appropriate. After accepting the engagement, however, if the practitioner concludes that the subject matter is not appropriate, the practitioner expresses a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the practitioner considers withdrawing from the engagement.

Assessing the Suitability of the Criteria

19. The practitioner should assess the suitability of the criteria to evaluate or measure the subject matter. Suitable criteria have the

characteristics listed in paragraph 36 of the Framework. As indicated in paragraph 17 of the Framework, a practitioner does not accept an assurance engagement unless the practitioner's preliminary knowledge of the engagement circumstances indicates that the criteria to be used are suitable. After accepting the engagement, however, if the practitioner concludes that the criteria are not suitable, the practitioner expresses a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the practitioner considers withdrawing from the engagement.

20. Paragraph 37 of the Framework indicates that criteria can either be established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. When established criteria exist for a subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in relation to, for example, prudential supervision. In such cases, the assurance report:

- (a) Notes, when it is relevant to the circumstances of the engagement, that the criteria are not embodied in laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process; and
- (b) States that it is only for the use of the specific users and for their purposes.

21. For some subject matters, it is likely that no established criteria exist. In those cases, criteria are specifically developed. The practitioner considers whether specifically developed criteria result in an assurance report that is misleading to the intended users. The practitioner attempts to have the intended users or the engaging party acknowledge that specifically developed criteria are suitable for the intended users' purposes. The practitioner considers how the absence of such an acknowledgement affects what is to be done to assess the suitability of the identified criteria, and the information provided about the criteria in the assurance report.

Materiality and Assurance Engagement Risk

22. The practitioner should consider materiality and assurance engagement risk when planning and performing an assurance engagement.

23. The practitioner considers materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of misstatement. Considering materiality requires the practitioner to understand and assess what factors might influence the decisions of the intended users. For example, when the identified criteria allow for variations in the presentation of the subject matter information, the practitioner considers how the adopted presentation might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner's judgment.

24. **The practitioner should reduce assurance engagement risk to an acceptably low level in the circumstances of the engagement.** In a reasonable assurance engagement, the practitioner reduces assurance engagement risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the practitioner's conclusion. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. However, in a limited assurance engagement, the combination of the nature, timing, and extent of evidence-gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

25. Paragraph 49 of the Framework indicates that, in general, assurance engagement risk comprises inherent risk, control risk and detection risk. The degree to which the practitioner considers each of these components is affected by the engagement circumstances, in particular the nature of the subject matter and whether a reasonable assurance or a limited assurance engagement is being performed.

Using the Work of an Expert

26. **When the work of an expert is used in the collection and evaluation of evidence, the practitioner and the expert should, on a**

combined basis, possess adequate skill and knowledge regarding the subject matter and the criteria for the practitioner to determine that sufficient appropriate evidence has been obtained.

27. The subject matter and related criteria of some assurance engagements may include aspects requiring specialized knowledge and skills in the collection and evaluation of evidence. In these situations, the practitioner may decide to use the work of persons from other professional disciplines, referred to as experts, who have the required knowledge and skills. This ISAE does not provide guidance with respect to using the work of an expert for engagements where there is joint responsibility and reporting by a practitioner and one or more experts.

28. Due care is a required professional quality for all individuals, including experts, involved in an assurance engagement. Persons involved in assurance engagements will have different responsibilities assigned to them. The extent of proficiency required in performing those engagements will vary with the nature of their responsibilities. While experts do not require the same proficiency as the practitioner in performing all aspects of an assurance engagement, the practitioner determines that the experts have a sufficient understanding of the ISAEs to enable them to relate the work assigned to them to the engagement objective.

29. The practitioner adopts quality control procedures that address the responsibility of each person performing the assurance engagement, including the work of any experts who are not professional accountants, to ensure compliance with this ISAE and other relevant ISAEs in the context of their responsibilities.

30. **The practitioner should be involved in the engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the practitioner to accept responsibility for the conclusion on the subject matter information.** The practitioner considers the extent to which it is reasonable to use the work of an expert in forming the practitioner's conclusion.

31. The practitioner is not expected to possess the same specialized knowledge and skills as the expert. The practitioner has however, sufficient skill and knowledge to:

- (a) Define the objectives of the assigned work and how this work relates to the objective of the engagement;

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- (b) Consider the reasonableness of the assumptions, methods and source data used by the expert; and
 - (c) Consider the reasonableness of the expert's findings in relation to the engagement circumstances and the practitioner's conclusion.
32. **The practitioner should obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the assurance engagement.** In assessing the sufficiency and appropriateness of the evidence provided by the expert, the practitioner evaluates:
- (a) The professional competence, including experience, and objectivity of the expert;
 - (b) The reasonableness of the assumptions, methods and source data used by the expert; and
 - (c) The reasonableness and significance of the expert's findings in relation to the circumstances of the engagement and the practitioner's conclusion.

Obtaining Evidence

33. **The practitioner should obtain sufficient appropriate evidence on which to base the conclusion.** Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The practitioner uses professional judgment and exercises professional skepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.

34. An assurance engagement rarely involves the authentication of documentation, nor is the practitioner trained as or expected to be an expert in such authentication. However, the practitioner considers the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.

35. Sufficient appropriate evidence in a reasonable assurance engagement is obtained as part of an iterative, systematic engagement process involving:

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- (a) Obtaining an understanding of the subject matter and other engagement circumstances which, depending on the subject matter, includes obtaining an understanding of internal control;
- (b) Based on that understanding, assessing the risks that the subject matter information may be materially misstated;
- (c) Responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures;
- (d) Performing further procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the subject matter, tests of the operating effectiveness of controls; and
- (e) Evaluating the sufficiency and appropriateness of evidence.

36. "Reasonable assurance" is less than absolute assurance. Reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following:

- The use of selective testing.
The inherent limitations of internal control.
The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the subject matter.

37. Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are, however, deliberately limited relative to a reasonable assurance engagement. For some subject matters, there may be specific ISAEs to provide guidance on procedures for gathering sufficient

appropriate evidence for a limited assurance engagement. In the absence of a specific ISAE, the procedures for gathering sufficient appropriate evidence will vary with the circumstances of the engagement, in particular: the subject matter, and the needs of the intended users and the engaging party, including relevant time and cost constraints. For both reasonable assurance and limited assurance engagements, if the practitioner becomes aware of a matter that leads the practitioner to question whether a material modification should be made to the subject matter information, the practitioner pursues the matter by performing other procedures sufficient to enable the practitioner to report.

Representations by the Responsible Party

38. The practitioner should obtain representations from the responsible party, as appropriate. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the responsible party. In particular, the practitioner requests from the responsible party a written representation that evaluates or measures the subject matter against the identified criteria, whether or not it is to be made available as an assertion to the intended users. Having no written representation may result in a qualified conclusion or a disclaimer of conclusion on the basis of a limitation on the scope of the engagement. The practitioner may also include a restriction on the use of the assurance report.

39. During an assurance engagement, the responsible party may make representations to the practitioner, either unsolicited or in response to specific inquiries. When such representations relate to matters that are material to the subject matter's evaluation or measurement, the practitioner:

- (a) Evaluates their reasonableness and consistency with other evidence obtained, including other representations;
- (b) Considers whether those making the representations can be expected to be well informed on the particular matters; and
- (c) Obtains corroborative evidence in the case of a reasonable assurance engagement. The practitioner may also seek corroborative evidence in the case of a limited assurance engagement.

40. Representations by the responsible party cannot replace other evidence the practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a

limitation on the scope of the engagement, even if a representation from the responsible party has been received on the matter.

Considering Subsequent Events

41. **The practitioner should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report.** The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner's conclusion. Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the subject matter. For example, when the engagement requires a conclusion about the accuracy of a statistical return at a point in time, events occurring between that point in time and the date of the assurance report, may not affect the conclusion, or require disclosure in the return or the assurance report.

Documentation

42. **The practitioner should document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs.**

43. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of judgment, and related conclusions. The existence of difficult questions of principle or judgment, calls for the documentation to include the relevant facts that were known by the practitioner at the time the conclusion was reached.

44. It is neither necessary nor practical to document every matter the practitioner considers. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the practitioner may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the engagement) to another practitioner who has no previous experience with the engagement. That other practitioner may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practitioner who prepared the documentation.

Preparing the Assurance Report

45. **The practitioner should conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the assurance report.** In developing the conclusion, the practitioner considers

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all relevant evidence obtained, regardless of whether it appears to corroborate or to contradict the subject matter information.

46. **The assurance report should be in writing and should contain a clear expression of the practitioner's conclusion about the subject matter information.**

47. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner does not report orally or by use of symbols without also providing a definitive written assurance report that is readily available whenever the oral report is provided or the symbol is used. For example, a symbol could be hyperlinked to a written assurance report on the Internet.

48. This ISAE does not require a standardized format for reporting on all assurance engagements. Instead it identifies in paragraph 49 the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner chooses a "short form" or "long form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements. "Long-form" reports often describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement and, in some cases, recommendations, as well as the basic elements. Any findings and recommendations are clearly separated from the practitioner's conclusion on the subject matter information, and the wording used in presenting them makes it clear they are not intended to affect the practitioner's conclusion. The practitioner may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

Assurance Report Content

49. **The assurance report should include the following basic elements:**

- (a) **A title that clearly indicates the report is an independent assurance report:**⁴ an appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner.

⁴ See footnote 2.

- (b) **An addressee:** an addressee identifies the party or parties to whom the assurance report is directed. Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users.
- (c) **An identification and description of the subject matter information and, when appropriate, the subject matter:** this includes for example:
- The point in time or period of time to which the evaluation or measurement of the subject matter relates;
 - Where applicable, the name of the entity or component of the entity to which the subject matter relates; and
 - An explanation of those characteristics of the subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the evaluation or measurement of the subject matter against the identified criteria, or the persuasiveness of available evidence. For example:
 - o The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
 - o Changes in the subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.

When the practitioner's conclusion is worded in terms of the responsible party's assertion, that assertion is appended to the assurance report, reproduced in the assurance report or referenced therein to a source that is available to the intended users.

- (d) **Identification of the criteria:** the assurance report identifies the criteria against which the subject matter was evaluated or measured so the intended users can understand the basis for the practitioner's conclusion. The assurance report may include the criteria, or refer to them if they are contained in an assertion prepared by the responsible party that is available to the intended users or if they are otherwise available from a readily accessible source. The Practitioner considers whether it is relevant to the circumstances, to disclose:

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- The source of the criteria, and whether or not the criteria are embodied in laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the subject matter (and if they are not, a description of why they are considered suitable);
 - Measurement methods used when the criteria allow for choice between a number of methods;
 - Any significant interpretations made in applying the criteria in the engagement circumstances; and
 - Whether there have been any changes in the measurement methods used.
- (e) **Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria:** while in some cases, inherent limitations can be expected to be well understood by readers of an assurance report, in other cases it may be appropriate to make explicit reference in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.
- (f) **When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose:** in addition, whenever the assurance report is intended only for specific intended users or a specific purpose, the practitioner considers stating this fact in the assurance report.⁵ This provides a caution to readers that the assurance report is restricted to specific users or for specific purposes.

⁵ While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

- (g) **A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities:** this informs the intended users that the responsible party is responsible for the subject matter in the case of a direct reporting engagement, or the subject matter information in the case of an assertion-based engagement,⁶ and that the

While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Refer to paragraph 10 of the Framework for an explanation of the distinction between a direct engagement and an assertion-based engagement practitioner's role is to independently express a conclusion about the subject matter information.

- (h) **A statement that the engagement was performed in accordance with ISAEs:** where there is a subject matter specific ISAE, that ISAE may require that the assurance report refer specifically to it.
- (i) **A summary of the work performed:** the summary will help the intended users understand the nature of the assurance conveyed by the assurance report. ISA 700, "The Auditor's Report on Financial Statements"⁷ and ISRE 2400, "Engagements to Review Financial Statements" provide a guide to the appropriate type of summary.

Where no specific ISAE provides guidance on evidence-gathering procedures for a particular subject matter, the summary might include a more detailed description of the work performed.

Because in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a

⁶ Refer to paragraph 10 of the Framework for an explanation of the distinction between a direct engagement and an assertion-based engagement.

⁷ ISA 700, "The Auditor's Report on Financial Statements" was withdrawn in December 2006 when ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" became effective.

conclusion expressed in the negative form, the summary of the work performed:

- (i) Is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of evidence-gathering procedures. It may be appropriate to indicate procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement; and
 - (ii) States that the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement.
- (j) **The practitioner's conclusion:** where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion is expressed in the form that is appropriate to either a reasonable-assurance or a limited assurance engagement.

Where appropriate, the conclusion should inform the intended users of the context in which the practitioner's conclusion is to be read: the practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of, and is subject to the inherent limitations outlined elsewhere in this independent assurance report." This would be appropriate, for example, when the report includes an explanation of particular characteristics of the subject matter of which the intended users should be aware.

In a reasonable assurance engagement, the conclusion should be expressed in the positive form: for example: "In our opinion internal control is effective, in all material respects, based on *XYZ criteria*" or "In our opinion *the responsible party's* assertion that internal control is effective, in all material respects, based on *XYZ criteria*, is fairly stated."

In a limited assurance engagement, the conclusion should be expressed in the negative form: for example: "Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all

material respects, based on *XYZ criteria*" or "Based on our work described in this report, nothing has come to our attention that causes us to believe that *the responsible party's* assertion that internal control is effective, in all material respects, based on *XYZ criteria*, is not fairly stated."

Where the practitioner expresses a conclusion that is other than unqualified, the assurance report should contain a clear description of all the reasons: (also see paragraphs 51-53).

- (k) **The assurance report date:** this informs the intended users that the practitioner has considered the effect on the subject matter information and on the assurance report of events that occurred up to that date.
- (l) **The name of the firm or the practitioner, and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement:** this informs the intended users of the individual or firm assuming responsibility for the engagement.

50. The practitioner may expand the assurance report to include other information and explanations that are not intended to affect the practitioner's conclusion. Examples include: details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, findings relating to particular aspects of the engagement, and recommendations. Whether to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

Qualified Conclusions, Adverse Conclusions and Disclaimers of Conclusion

51. The practitioner should not express an unqualified conclusion when the following circumstances exist and, in the practitioner's judgment, the effect of the matter is or may be material:

- (a) There is a limitation on the scope of the practitioner's work, that is, circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level. The

- practitioner should express a qualified conclusion or a disclaimer of conclusion;
- (b) In those cases where:
- (i) The practitioner's conclusion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated, in all material respects; or
 - (ii) The practitioner's conclusion is worded directly in terms of the subject matter and the criteria, and the subject matter information is materially misstated,⁸ the practitioner should express a qualified or adverse conclusion; or
- (c) When it is discovered, after the engagement has been accepted, that the criteria are unsuitable or the subject matter is not appropriate for an assurance engagement. The practitioner should express:
- (i) A qualified conclusion or adverse conclusion when the unsuitable criteria or inappropriate subject matter is likely to mislead the intended users; or
 - (ii) A qualified conclusion or a disclaimer of conclusion in other cases.
52. The practitioner should express a qualified conclusion when the effect of a matter is not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion is expressed as being "except for" the effects of the matter to which the qualification relates.
53. In those cases where the practitioner's unqualified conclusion would be worded in terms of the responsible party's assertion, and that assertion has identified and properly described that the subject matter information is materially misstated, the practitioner either:
- (a) Expresses a qualified or adverse conclusion worded directly in terms of the subject matter and the criteria; or

⁸ In those direct reporting engagements where the subject matter information is presented only in the practitioner's conclusion, and the practitioner concludes that the subject matter does not, in all material respects, conform with the criteria, for example: "In our opinion, except for [...], internal control is effective, in all material respects, based on XYZ criteria," such a conclusion would also be considered to be qualified (or adverse as appropriate).

- (b) If specifically required by the terms of the engagement to word the conclusion in terms of the responsible party's assertion, expresses an unqualified conclusion but emphasizes the matter by specifically referring to it in the assurance report.

Other Reporting Responsibilities

54. The practitioner should consider other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.

55. In this ISAE, "governance" describes the role of persons entrusted with the supervision, control and direction of a responsible party.⁹ Those charged with governance ordinarily are accountable for ensuring that an entity achieves its objectives and for reporting to interested parties. If the engaging party is different from the responsible party it may not be appropriate to communicate directly with the responsible party or those charged with governance over the responsible party.

56. In this ISAE, "relevant matters of governance interest" are those that arise from the assurance engagement and, in the practitioner's opinion, are both important and relevant to those charged with governance. Relevant matters of governance interest include only those matters that have come to the attention of the practitioner while performing the assurance engagement. If the terms of the engagement do not specifically require it, the practitioner is not required to design procedures for the specific purpose of identifying matters of governance interest.

Effective Date

57. This ISAE is effective for assurance engagements where the assurance report is dated on or after January 1, 2005. Earlier application is permissible.

⁹ In many countries, principles of governance have been developed as a point of reference for establishing good governance behavior. Such principles often focus on publicly traded companies; they may however, also serve to improve governance in other forms of entities. There is no single model of good governance. Governance structures and practices vary from country to country.

Public Sector Perspective

1. *This ISAE is applicable to all professional accountants in the public sector who are independent of the entity for which they perform assurance engagements. Where professional accountants in the public sector are not independent of the entity for which they perform an assurance engagement, this ISAE should be applied with particular reference to the guidance in footnotes 2 and 4.*