Abstract

Internal audit can play an important role in corporate social responsibility (CSR) strategies. The role depends on the degree of maturity of the organization, including the maturity of CSR, as well as the degree of maturity of the internal audit. It is essential that the internal audit provide assurance about the CSR strategies. At the same time, internal audit can be a driver, a leader that will stimulate the creation and development of a CSR strategy. In fulfilling this role, an internal audit applies a holistic approach. In this context, it is also important to encourage the development of a comprehensive CSR management and control system. CSR is a delicate activity. In this sense, an internal audit faces many threats. In order to be really useful and meet expectations, the internal audit needs to be independent. The competence of internal auditors in the field of CSR, as well as the business as a whole, needs to be constantly improved. The strategic objectives of the internal audit should be in line with the organization’s objectives, including those related to CSR.

Key words: corporate social responsibility, internal audit, maturity model, control, strategy

JEL: M14; M42; M48; L2;

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Introduction

In its evolution, the internal audit has undergone a considerable transformation. Typical of today’s internal audit is that it prioritizes processes, systems, strategies rather than operations; it is more focused on the present and the future rather than on the past; it provides assessments of integrated management and control systems rather than individual controls; it goes beyond the financial field, striving to be closer to the needs of the business and to cover all of its areas. All these distinctive features are inherent to a high level of maturity of the internal audit. Corporate social responsibility within the company also evolves from fragments to complete systems, from sporadic initiatives to comprehensive management and implementation of specific strategies implanted and synchronized in the overall corporate strategy. At each stage of this evolution, the internal audit should have a role to play in meeting the CSR auditing needs and a role encouraging its transition to a higher degree of maturity. Apart from this vertical aspect, the role of the internal audit can be explored in a horizontal aspect as well, i.e. with regard to the different stages of the CSR strategy.

The study uses key documents that are mandatory guidelines from the conceptual framework for internal audit, namely, definition, mission, standards, principles issued by the Institute of Internal Auditors (IIA)
The Role of Internal Audit in Corporate Social Responsibility Strategies

1. Defining the role of internal audit in CSR strategies based on research and analysis of requirements arising from the conceptual framework for internal audit.

The requirements for the modern internal audit are set out in the main documents constituting Standards & Guidance – International Professional Practices Framework (IPPF), (The Institute of Internal Auditors, 2015), namely mission, definition, basic principles, standards, ethical code, guidelines. Based on these requirements, many features could be derived that shape the modern internal audit, but we will only selectively address those that are directly or indirectly linked to strategies in the organizations.

In view of the nature of work of the internal audit addressed in the Internal Audit Standards (The Institute of Internal Auditors, 2016), three important aspects can be highlighted, namely Governance, Risk Management and Control. With regard to Governance, Standard 2110 sets out requirements for internal audit, including two directly related to the study: “The internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for making strategic and operational decisions” and “Promoting appropriate ethics and values within the organization”.

The performance standards 2110.A1 and 2110.A2 specify: “The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities” (2110.A1) and “The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives” (2110.A2).

The aim of the study is to outline the role of internal audit in CSR strategies and to establish the factors that determine it.

The methods used are: secondary data analysis, comparative-historical method, observation method and the method of system analysis.
performance standard 2120.A1 requires that “the internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the: Achievement of the organization’s strategic objectives.” With regard to Control, the performance standard 2130.A1 requires that “the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the: Achievement of the organization’s strategic objectives.”

On the basis of the above mentioned standards, the role of internal audit in relation to CSR strategies can be defined, and more precisely what is expected of it in this direction, namely:

- Internal audit should assess and give appropriate recommendations on strategic decision-making processes related to corporate social responsibility;
- Internal audit is expected to play a significant role in one of the core elements of CSR, namely ethics. Internal audit should evaluate and give appropriate recommendations on the processes involved in promoting ethical relationships and values within the organization, and internal audit must assess the establishment, implementation and effectiveness of ethics tasks, programs and activities within the organization;
- Internal audit must assess whether IT management within the organization supports CSR strategies and objectives;
- Internal audit must assess the management of CSR-related risks, especially those that would hinder the achievement of the CSR strategic objectives;
- Internal audit should assess the adequacy and effectiveness of controls in response to the risks associated with CSR and the achievement of its strategic objectives.

Internal audit standards require internal auditors to have the necessary knowledge, skills and other abilities to fulfill their individual responsibilities (Standard 1210 - Competence). This requirement is also a basic principle of internal auditing.

With regard to corporate social responsibility and sustainable development, internal auditors should have specific competences related to good knowledge of standards, for instance SA 8000, ISO 26 000, standard AA 1000, ISO 14000 (Peycheva, M. 2015, pp. 35-78). A study conducted in Bulgaria (Peycheva, Miteva, Harizanova-Bartos, 2017, p.81-91) shows that internal auditors are not familiar with the standards related to social responsibility and its individual aspects. This applies to both the public and private sector. To questions with regard to all standards related to social responsibility, all internal auditors, i.e. 100% of respondents, answered they did not know the standards. The analysis of these results outlines a gap in internal auditors’ knowledge. Effective solutions can be using external experts or performing joint audits with external auditors (co-sourcing).

In addition to specific competences, internal auditors should also have common competences related to the nature of work of internal auditing (Governance, Risk Management and Control), as well as knowledge of the use of business, strategies, and more. A survey (Rose, J. 2015) shows that internal auditors evaluate the lowest their competences in Business acumen/judgment (3.50) and Governance, risk, and control (3.43) on a scale of 5 to 1, from the highest to the lowest.

The quoted results indicate a possible threat to the role of internal auditing in CSR.
strategies, namely inadequate competence of internal auditors.

According to the definition, an internal audit is an independent and objective activity. Independence and objectivity are formulated as a basic principle for internal auditing. Standard 1100: Independence and Objectivity pays special attention to these principles. And if objectivity is a personal characteristic, independence is institutional and is essential for expressing the free opinion of internal auditors and providing their assessments. This is particularly true for corporate social responsibility and its strategies. Corporate social responsibility is a delicate area. When assessing its management and implementing strategies, non-adverse facts about the company may be found, for example: CSR is more of an advertisement; strategies are only for the company’s website, etc. It is difficult to report to the Board. It is also difficult for other areas when irregularities are found, but they concern the internal image of the company, whereas in the event of any CSR irregularities, the internal audit “ruins the good” image of the company, i.e. the external image of the company is compromised. Something that even the Board would not want to hear. That is why it is so important for internal auditors not to be pressured to submit findings. In this regard, the results of a survey conducted among internal auditors (Harrington L., Piper A., 2015) are of interest. Asked whether they were pressured to refuse or change their findings, 64% -66% said they were never pressured. The other figures are worrying, 20% -29% said they were pressured once in their careers, and 5%-14% preferred not to answer this question, which suggests that they were pressured. In a situation of exerted pressure, the role of internal auditing in CSR strategies would be under serious threat.

It is essential that the overall strategy of the internal audit unit is in line with the organization’s strategy and the CSR strategies. In this regard, it is necessary to improve the processes of setting goals for, planning and programming of the internal audit that are linked to those of the organization. A KPMG survey, conducted amongst internal auditors, points to the strategic alignment of internal audit plans with the organization’s strategy among the top 10 risk areas for internal auditing. A study (Harrington L., Piper, A., 2015) shows what the assessment of internal auditors regarding the alignment of the audit plan with the organization’s strategic plan is by geographical region. In Latin America and the Caribbean, 72% of respondents believe that their audit plan fully or almost completely coincides with the strategic plan of the organizations. In comparison to Europe and Central Asia this percentage is 57%, for North America 54%, for South Asia 43%. The results are unsatisfactory as it is evident that there is no complete synchronization of the audit plan with the organization’s strategic plan, which may be a deterrent to the strong role the internal audit may have in CSR strategies.

According to another study (The Institute of Internal Auditors Research Foundation (IIARF), 2014), social audits and sustainability audits (corporate social responsibility, environment, etc.) were included in the scope of internal auditors in only 20% of respondents, whereas ethics audit comprise 68% and rank sixth in the list of 24 types of audit engagements. A study (Cowan M., Camfield H., English S. and Hammond S., 2014) shows that nearly half (49 percent) of all internal auditors in the survey did not participate in the assessment of their company culture. These results unambiguously show a weakness of CSR audits that threatens the role of the internal audit in the CSR strategies.

While the study results above do not directly address CSR strategies, they can be
seen as potential threats to CSR strategies, namely:

- That the internal audit is not independent;
- That internal auditors do not have sufficiently specific competencies in CSR, as well as general competencies with regard to the business and the nature of work of internal audit;
- That audit plans are inconsistent with CSR activities and strategies.

2. The role of internal audit in CSR strategies depending on the level of maturity of CSR and the stages of CSR strategies.

In order to define the role of internal audit in CSR strategies, Dineva’s CSR maturity model can be used (Peycheva M., Veysel A., Dineva V., 2016, p.212-213), which shows the role of the internal audit depending on the level of maturity of CSR. The model consists of five levels of maturity: indifferent, fragmented, aware, managed and optimized. Each level is characterized by relevant maturity criteria for CSR. At each level, there are focuses and role of the internal audit. If we carefully look at the model at its highest levels of maturity, we will see the most active role of the internal audit in terms of strategies. For example, the level of “Awareness” is characterized by the fact that certain units, functions, activities identify and evaluate risks typical of CSR. Separate CSR strategies are formulated, for example, for individual stakeholders (clients, employees, etc.), but they are mostly declarative, not tied to a comprehensive CSR strategy, not integrated into the corporate strategy, and are not aligned with other strategies and activities. Reporting at this stage is selective. Here, the role of the internal audit may be related to recommendations aimed at improving CSR activities, including the strategic ones, advice and consultations on clarifying the necessary communications and ensuring their effective implementation, as well as recommendations on the control environment, controls and risk assessment methods.

At the “Managed” maturity level, the CSR criteria are: availability of CSR performance metrics that are reported to the public; CSR is integrated into the activity by means of separate processes; integrating CSR indicators, objectives and strategies that are fully managed; risks associated with CSR are known and managed; appropriate controls are in place. At this level, the recommended role of the internal audit is to provide advice on the development of comprehensive strategies as well as advice on building a system for preparing and presenting CSR information, and reporting and introducing appropriate controls to ensure their reliability, quality and transparency. This requirement is becoming increasingly important in relation to integrated reporting. As Ali Veysel notes, “Integrated accountability is different from financial accountability in the principle of “strategic focus and orientation towards the future”. Furthermore, the financial report does not provide information on understanding, reporting and responding to the legitimate needs and interests of key stakeholders.” (Veysel A., 2018, p. 35). As evident from the quote, the concept of CSR for stakeholders is an integral part of the concept of integrated accountability, and therefore assessments, confirmation, and internal audit recommendations are an imperative need.

At the “Optimized” level, CSR is part of the mission, principles and performance indicators of the organization; there are clearly established stakeholder engagement processes; the management and control of CSR are part of the overall corporate governance and overall control system; CSR is
a factor influencing business decision-making processes across the organization, including at Board level; public statements are created for the public. At this level, the recommended role of the internal audit is to perform strategic audits. According to a study by the Institute of Internal Auditors Research Foundation (IIARF) (2014), Reviews addressing linkage of strategy and performance (e.g. balanced scorecard) are only 26% which shows that these types of audits are practiced on a small scale in the internal auditing practice.

The specifics of strategic audit are reviewed by Valeria Dineva. “Strategic audit can be performed as a consulting engagement or as an assurance engagement. The consulting engagement is appropriate at the stage of preparing and formulating a strategy, whereas the assurance engagement is appropriate for assessing the implementation of the strategy and, in general, the outcomes of the strategy. This type of audit implies a very good competence of internal auditors.” (Dineva, V, 2014, p.145)

Strategic audits may relate to the implementation of the overall CSR strategy or its individual stages. Goals could also vary: e.g. an assessment of the implementation or evaluation of the control system and the extent to which it supports the implementation of the strategy or, in particular, an assessment of the strategic control. “Strategic control is carried out on the conditions that ensure the performance of a strategic task is completed” (Dinev, M., 2015, p. 274). Furthermore, Mihail Dinev specifies that “The form of strategic control expands the possibilities of control impact, clearly highlights its qualities of prevention, comprehensiveness and flexibility. The good organization of control allows us to encompass and regulate, ultimately purposefully manage strategic processes and phenomena in social development.” (Dinev, M., 2015, p. 277)

The role of the internal audit in the strategic control assessment is examined by Ognyan Simeonov “From the point of view of the assessment function of the internal audit, it is important to evaluate the controls related to the implementation of the strategic objectives, i.e. the assessment of strategic control and control systems.” (Simeonov, O., Lambovska, M., 2011, p.138)

The stages of the CSR strategy can be formulated in different ways. Marina Stefanova addresses four consecutive steps, namely forming a responsible team, formulating a mission, strategy and goals, synchronizing with the available management system, including performance indicators. (Stefanova, M., 2018, p. 248)

At each stage of the strategy, internal audit can play a specific role. For example, the internal audit role will be preventive and useful at the stage of “formulating a mission, strategy and goals”, especially in the process of goal setting, as Ognyan Simeonov points out. “In addition to this role in assessing and supporting the management of the internal control system, internal audit may also play a role in the overall governance of organizations, in the processes of targeting. Insofar as the objectives are the starting point for risk assessment and the building of the entire internal control system, the internal audit can identify incompleteness, ambiguity, lack of specificity and measurability in the process of their understanding, in order to assist management in their definition. (Simeonov, O., Lambovska, M., 2011, p.54)

The “synchronization with the available management system” stage is very important from a managerial point of view. At this stage, it is also necessary to integrate CSR and its strategy into the organization’s overall strategy because, as noted by Irena Slavova, CSR can create benefits for companies when integrated into their operations when
corporate social activities are part of the strategy of organization and are related to its goals." (Slavova, I., 2015, p. 118)

The successful synchronization of the CSR strategy with the management system is an indicator of the high maturity of CSR to achieve optimization. In fact, integration and synchronization with all existing systems is needed. At this stage internal audit has an essential role - to provide assurance about the integration of CSR and the synchronization with other systems, for example in the control system and the risk management system, the human resources management system, the environmental management system (EMS), the ethics, etc. In assessing the integration and synchronization of CSR and CSR strategies with other activities and strategies, the internal audit should apply an adequate integrated and holistic approach. Here are two examples, though non-exhaustive. The first example is related to ecology. “The EMS requires taking into account all significant environmental aspects and determining environmental risks and ecological performance indicators.” (Ivanova D., A. Haradinova, E. Vasileva, 2016, p. 61) In this regard the internal audit should establish whether the environmental aspects defined in the environmental management system are relevant in the CSR strategy. Also, the internal audit should assess whether the environmental risks are included in the overall risk assessment of the organization and whether their impact on the CSR implementation is evaluated. It is essential to assess how these risks are managed, whether controls to mitigate them are in place, and so on.

The other example is related to human resources management. Based on the responsibilities of the HR Unit in relation to social responsibility defined by Miroslava Peycheva (Stefanov, L., Peycheva, M., 2018, p.), the integrated approaches that the internal auditors will implement can be adopted. It is important to assess how the HR Unit supports the CSR strategies. It should be determined whether any training has been conducted with a view to understanding and implementing the CSR strategies, whether the key staff members involved in their implementation are selected, how they were selected, on the basis of what criteria, whether they are aware of the resulting obligations, and whether these obligations are specified in the job descriptions, and so on. Furthermore, the integrated assessment can continue to identify whether the risks of incompetence, ignorance, non-discipline in the implementation of CSR strategies are identified, evaluated and managed and whether they are integrated into the overall risk assessment of the organization. The search for and the establishment of synchrony can also continue by making a comparison with the risk culture, ethics, compliance function, if any. The internal audit assessment should also integrate the assessment of corporate culture because, as noted by Yanitsa Dimitrova, “corporate culture is also a kind of complex message oriented (directly or indirectly) towards the consumer, aiming to expose in the best way the unique characteristics of a company, and oriented towards the employees - to frame their joint actions and to create organizational behavior in order to implement the corporate strategy.” (Dimitrova Y., 2015, p. 65)

Many other examples can be presented, with similar reasoning to the above, but even if they stop here there are good reasons to outline the following conclusions about the role of the internal audit, depending on the level of maturity of CSR and the stages of the CSR strategies:
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- a distinctive feature of high maturity levels is the availability of CSR strategies and a comprehensive CSR strategy, skillfully and successfully integrated into the overall corporate strategy and synchronized with other strategies and activities;
- at each maturity level of CSR there should be an adequate level of maturity of the internal audit, capable of providing assurance and encouraging improvement;
- apart from the vertical aspect of the level of maturity, the role of the internal audit can also be viewed horizontally at the stages of the CSR strategy, as well as in evaluating the processes of integration and synchronization with other activities and strategies;
- at the high levels of maturity, the internal audit is expected to perform strategic audits by applying integrated and holistic approaches.

3. Conclusions

Modern internal audit could and should play a significant role in CSR strategies. Actually, the role of internal audit in CSR strategies is determined by the level of maturity of CSR, as well as by the level of maturity of the internal audit itself. The results of the abovementioned studies show not a strong commitment of the internal audit to CSR, which together with the lack of competence and independence, pose serious threats that may become obstacles to the role of the internal audit in the CSR strategies. In this regard, it is necessary to strengthen and improve the competences of internal auditors and this applies to both the CSR-specific competences and some common competencies essential for auditing the CSR strategies. It is also necessary to ensure the independence of the internal audit, as well as to align the audit plans with the strategies of the organizations, including CSR strategies.

The main role expected of the internal audit in relation to the CSR strategies is to provide assurance about their performance, credibility, accountability, and efficiency. In addition to the implementation stage, the internal audit may provide estimates of its individual steps. Also, the internal audit should assess the strategic control, the CSR control system and its capacity to support the strategy. Another direction in which the internal audit can be useful is to provide assurance about the management of the risks that threaten the implementation of the CSR strategies. The usefulness of the internal audit also depends on the capacity and opportunities that it has, to provide advice, opinions, recommendations to help implement the CSR strategies as well as to improve them.

In any case, implementing integrated and holistic approaches in assessing CSR strategies and its individual aspects would increase the efficiency of the internal audit activity and lead to multiplier and synergy effects for CSR and the organization as a whole. All the options for a strong role of the internal audit imply high levels of maturity of CSR in the organization that are characterized by the existence of strategies. With low levels of maturity, when no CSR strategies are in place, internal audit can also play an important role as a catalyst and inspiration for CSR development, promote strategic processes related to CSR, including development and implementation of appropriate strategies.

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