5 CSR – CHALLENGES FOR AUDITORS & CHANGING ROLES

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ABSTRACT

As it was rightly quoted by some businessmen that "The Business does not exist in Vacuum", today its relevance can be seen in the changing business scenario. Corporate Social Responsibility (CSR) is gaining prominence as it is found and understood by many successful businessmen that sustainability and growth can be achieved only by taking together corporates, stakeholders, public and environment in achieving the objectives. While doing so, the roles of Auditors are commendable, as they act as a link between coportates and public. There is significant change in the roles which they used to perform earlier compared to that of now. Auditors are no more persons who just audit books of accounts, give audit reports and verify financial data but, now it is more of issue investigation, coming up with solutions, checking systems and controls, data security and management etc.. Understanding their relationship with different organizational structure is more important today as they are the people who work not only for organization but also for the public.

Keywords: *Corporate Social Responsibility, Auditors, Audit Committees, Board of Directors, Task Force Report, Risk.*

INTRODUCTION

Corporate Governance is one of the hottest topics which is discussed around the Globe today. After facing the bitter experience resulting from the issues created by corporate giants like WorldCom, Enron, Satyam-Mytas etc. now the entire business focal point or epicenter is shifted to effective and capable Governance. Now all corporate bodies have started chanting one mantra which is Corporate Social Responsibility (CSR).

Before going further on the topic let us understand some of the important terms which is more often used and knowing of which is very important to get the clear picture.

WHAT IS CORPORATE GOVERNANCE?

'Corporate Governance is the form by which stakeholders monitor their company.'

'Corporate Governance means doing everything better, to improve relations between companies and their shareholders; to improve the quality of outside directors; to encourage people to think long-term; to ensure that information needs of all stakeholders are met and to ensure that executive management is monitored properly in the interest of shareholders.'

So, by the above two definitions we can understand that Corporate Governance is not only adding two different words but it is one whole concept about the relationship between Corporate at one end and Stakeholders at the other.

WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

CSR means the concept by which organization focuses on taking up interest relating to societies by brining in changes in their function and approach so as to benefit their suppliers, communities, environment etc..

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According to the poll conducted by KPMG on The State of Corporate Governance in India: 2008, it was found that majority of Indian companies, around 47% of them didn't consider CSR as highly relevant in their corporate agenda and around 30% of the companies were not clear about the stand. This is the key indicator which needs to be thought upon and this is where a mass awareness movement needs to start in order to bring the importance of Corporate Governance.

ROLE OF AUDITORS

Auditors being key persons in corporate world play a major role in not only addressing the issues but also coming up with plans to find the solutions for closing the issues. Most of the scams, frauds etc come to light only due to good Audit mechanism in place. Auditors work neither for Board nor for Stakeholders, they work for identifying the compliance part and try to remove any deviations by placing proper controls. So, the primary role of Auditors is to check whether the financial information provided to stakeholders are reliable or not. Figure 1 below shows major roles of Auditors in driving towards achieving organisation objectives.

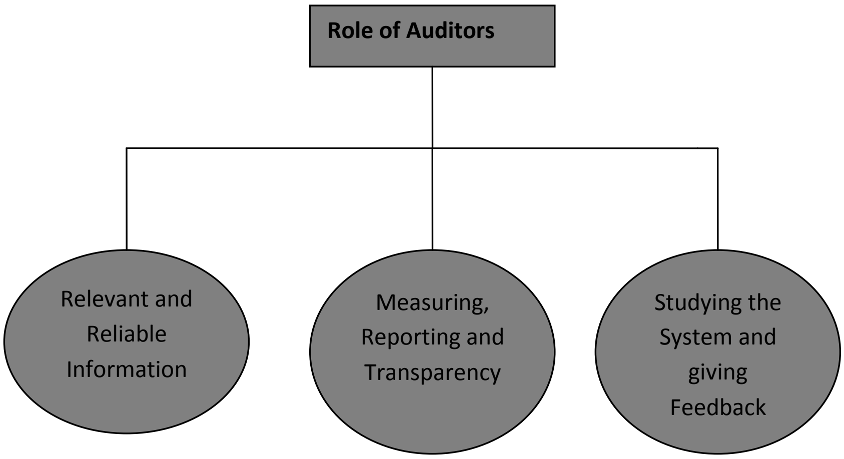

Figure 1 – Role of Auditors

RELEVANT AND RELIABLE INFORMATION

One of the primary objectives of the Auditors is to give expert opinion on aspects relating to the financial statements, compliances, adherence to standards etc. So, it is important that Auditors furnish with relevant and reliable information to the management and board so as to take proper decision on timely basis.

MEASURING, REPORTING AND TRANSPARENCY

Measuring refers to quantifying and expressing the important findings. Reporting means presenting the information in acceptable formats which is necessary for taking vital decisions and Auditors should not act in bias but should be transparent at the time of audit and reporting.

SYSTEM STUDY AND FEEDBACK

One of the important role of Auditors is that they should audit the system existing and need to identify if there are any flaws which needs rectification, he need to come up with suggestions and improvements so as to improve the system. System study and timely feedback is the important role of Auditors.

HOW AUDITORS HELP IN CORPORATE GOVERNANCE?

This is one of the important question which needs to be answered keeping in mind the different functions and roles performed by the Auditors. We need to understand the relationships which Auditors have with different people like Directors, Internal Auditors, Audit Committees and Regulators in order to see that the corporate pass on the social responsibilities to its stakeholders and various investors and shareholders.

AUDITOR AND DIRECTORS

Auditor plays a major role when it comes to the question of reporting the findings of Audit to the Board. Auditors neither report to Directors or to Shareholders, they act as investigators and try to bring out issues and facts which are not meeting statutory compliance. The verification of financial information and deviations if any, needs to be reported to the Directors and they should be more transparent in the findings. It is the role of Auditors to provide reliable and relevant timely information to the Directors for taking management decisions. If there is any negative finding, they should not hesitate to disclose the same to the Directors as they should at the same time protect the interest of the shareholders.

AUDITORS AND AUDIT COMMITTEE

Audit Committee is a body which comprises of independent directors whose main objective is to assure the integrity of financial statements, adhering to regulatory compliances, placing internal controls and mitigating any risk there on. In the poll results conducted by KPMG on Indian Companies, it was surprising to see that 62% of the companies responded that the skill set of Indian Audit Committee was either low or medium. So, Auditors role is very important in this case as they can drive the initiatives and programs to highlight the issues and the causes so that Audit Committee becomes more and more proactive in their working style. Since, the power of appointment of Auditors lies with Audit Committee; it should take extra care while appointing auditor and also should hear to Auditors whenever they brings up the issue.

AUDITORS AND INTERNAL AUDITORS

There should be good established relationship with Auditors and Internal Auditors to have an effecitive Corporate Governance. As the areas of audit are different in both cases, still the Internal Auditors can give lot of inputs to External Auditors. There should be good co-ordination and co-operation between Internal Auditor and External Auditors in order to address the issues. There should be full transparency and sharing with regard to vital information which if not addressed timely would affect the shareholder interest.

AUDITORS AND REGULATORS

Regulators are the body which monitors the performance of auditors by framing guidelines and setting professional ethics. For eg. Institute of Chartered Accountants of India, Institute of Cost Accountants of India and Institute of Company Secretary of India issues timely guidance on their professional practicing members relating to professional misconducts and there by act as regulators. Audit firms are audited for their professional works carried on and sometimes penalized for poor quality work. Regulators can help in the Corporate Governance by barring the poor quality Auditors from practicing, inspection of auditors' partnership agreements, placing controls on number of audit assignments etc.

Recommendation of Naresh Chandra Task Force on Corporate Governance

In Indian scenario of Corporate Governance there were lot of committees/bodies set up under Ministry of Corporate Affairs (MCA) and SEBI which looked in to the framework of Corporate Governance and came out with many recommendations which were later adopted by the professional Audit bodies. Confederation of Indian Industries (CII) set up a Task Force under the chairmanship of Shri Naresh Chandra. The Task Force visited various key areas which played vital role in Corporate Governance. Some of the recommendation made were:

1. Certificate from Audit Firms – Audit Firms who take up Audit assignment with the company should clearly certify that it has not taken any non audit assignments with other companies.
2. Rotation of Audit Partners – Audit Assignment handled by partners should be rotated after every 6 years. They can be restated for the same assignment after gap of 3 years.
3. Auditors Liability – An Audit Firm should disclose its net worth to the listed Company for which it is suppose to act as Auditor.
4. Appointment of Auditors – Audit Committee should take extra care and should be committed at the time of appointment of Auditors. Audit Committee should follow the various process and steps at the time of selecting the Auditors.
5. Qualified Audit Report – An Auditor should provide reasonable explanations and disclosures in his qualifed report. The language of the report should communicate the facts and materiality of the financial information.
6. Risk Management – Audit Committee and Executive management to collectively identify the sources of risk and try to minimize or mitigate the risk. Such Risk Management policy should be revisited on timely basis.
7. Audit Oversight Mechanism – Government to intervene and strengthen the Quality Review Board of ICAI.

CONCLUSION

As the business diverges, new challenges and threats emerges both internally and externally. The focus of the growth and development of the Company depends on how they are wed in the eyes of customers, shareholders and society in general. Corporate Social Responsibility is one emerging areas where the Companies are really tested. So, the survival and growth of Corporate rests on how close they are to the society in addressing the issues. Auditors who are the key and vital link between the Corporate and investors, suppliers, shareholders etc have a wider role to play. Understanding their responsibilities and professional ethics will help in delivering the good results for the Corporate as wells as to the general public and other stakeholders. Auditors should be more proactive and should look up to the issues and should without any hesitation bring up issues which are against the stakeholders, corporates or to the society. They also need to work closely with the different stakeholders like Board of Directors, Internal Auditors, Audit Committees and Regulatory in forming policy and programs to address issues and take timely decision to benefit the corporate as well as the public.

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