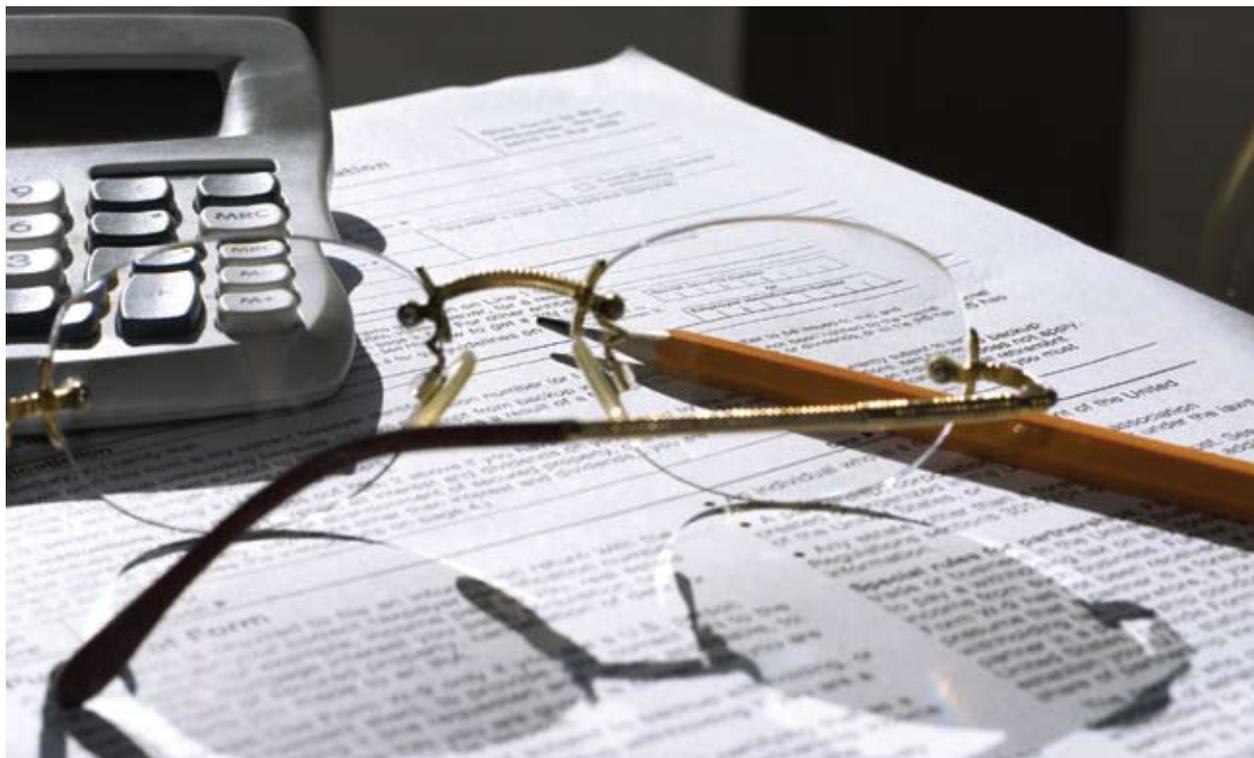


Social Audit and Its Relevance in India



Social Audit is proposed as a supplement to conventional audit to help government department, public agencies and NGOs, etc. understand and improve their performance as perceived by the stakeholders. Social Audit is a process by which an organisation accounts for its social performance to its stakeholders and seeks to improve its future social performance. Social auditing is a way to document and hold a company accountable for its social and ethical Business practices. Social audit involves social accountability, which is a process by which accountability is exacted from accountability holders through direct or indirect citizen action and engagement. India, where large scale public welfare schemes are run by government, NGOs and also by some companies, needs social audit culture all the more. More so because even today a crisis of credibility, confidence and trust persists with respect to government projects, programmes and schemes. Leakage of funds in public programmes and misuse of shareholders' and stakeholders' resources is a commonly perceived scenario. Chartered Accountants are the one of the groups of professionals that is able to understand and to fulfill the objectives and requirement of Social Auditors. Read on to know more.



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Social Audit-Genesis and Evolution

The concept of Social Audit originated in the European and American countries in the middle of the 20th centuries as a process of monitoring, appraising and measuring the social performance of the Business organisations. In the 1970s, Abt Associates (the American consultancy firm) conducted a series of social audits which were incorporated into its annual reports. The term Social was proposed by Howard R. Bowen in 1953, in his article on "Social Responsibilities of a Businessman".

What is Social Audit?

Social Audit is a process by which an organisation accounts for its social performance to its stakeholders and seeks to improve its future social performance. Social auditing is a way to document and hold a company accountable for its social and ethical business practices. Social Audit is a process of evaluation and reporting which is similar, in some respects to a financial audit but focuses on social performance rather than financial performance. It is a tool for evaluating how satisfactorily an organisation has discharged its social responsibility. Thus, it provides the strongest and indisputable direct evidence for inputs, processes, financial and physical reporting, compliance verification, assurance against misuse, fraud and misappropriation, and utilisation of resources and assets. Social Audit is a reform tool aimed at strengthening accountability and transparency in the implementation of projects and policies. It is a method for organisation to plan the internal and external consequences of the organisation's social and commercial operations.

Relevance of Social Audit

- **Governance and Accountability:** At its simplest, Accountability refers to a process by which individuals or organisations are answerable for their actions and consequences that follow from them. What remains unclear, however, is the issue of who is entitled to hold these individuals or organisations to account and mechanism that should be used in order to do so.

The *Traditional approach to Accountability* refers to the conventional method of formal authority over individual/organisation and right to hold them to account. But this approach to accountability often

Social Accountability means public accountability through civic management. It is a process by which accountability is exacted from accountability holders through direct or indirect citizen action and engagement. Social accountability ensures transparency, reduces leakage, forces proper spending of funds, generates trust and peace and creates demand-led improvement in services. It has both intrinsic value of strengthening democratic relationships of empowering people and in being instrumental in developing effectiveness through better services delivery and better governance. In a sense, it is a continuing audit and a constant check on malfeasance. ”

fails to empower those who are most affected by an organisation's decisions.

Meanwhile, the *Stakeholder Approach to Accountability* goes beyond the traditional approach and domain of formal authority. This approach is more participative in nature and democratic in spirit.

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Social Audit vs. Financial Audit

Social Audit is often misinterpreted as another form of audit to determine the accuracy of financial or statistical statement or reports and the fairness of the facts they present.

A conventional financial audit focuses on financial records and their scrutiny by an external auditor following accounting principles whereas the Social Audit is much more holistic having a greater scope for measuring, understanding and improving the social performance of an activity of an organisation.

Financial audit is geared towards verification of reliability and integrity of financial information whereas Social Audit examines performance of a department/programme *vis-à-vis* its stated core values in the light of community values and the distribution of benefits among different social groups reached through good governance principles.

Financial Audits of an NGO of a development project primarily focus on:

- ▶ Financial Documentation
- ▶ Appropriateness of Expenses
- ▶ System of processes
- ▶ Budgetary framework

But does not adequately address or capture two crucial issues that are integral to the existence or purpose of every NGO. They are:

- Issue of Relevance, and
- Area of effectiveness

In case of Financial Audit, there is no standardisation or prescribed format available for preparation of financial statement by the NGOs. The financial

By Social Audit, the organisation can better manage its risks, as it can enhance its social focus by covering any adverse social impacts highlighted by it in a social audit report. It enhances organisational reputation. By demonstrating its social performance and commitment to social objectives, the organisation enhances its reputation among and gains political capital with stakeholders. It affects positive organisational change. Information on social performance allows management to take constructive action to improve it. ”

statement prepared by the NGOs does not meet the reporting expectation of gamut of all the stakeholders.

The Income and Expenditure account is a point in the case. The Income and Expenditure account gives us information on excess of income over expenditure or *vice versa*. In either of the case, it does not communicate anything about the financial health of the organisation.

Objectives of Social Auditing

The broad objectives of any social engagement will be the following:

- Assessing the physical and financial gap between needs and resources available.
- Creating awareness among beneficiaries and providers of social and productive services.
- Increasing efficacy and effectiveness of development programmes.
- Scrutiny of various policy decisions, keeping in view stakeholders interest and priorities, particularly of marginal section of the society.
- Estimation of opportunity cost for stakeholders of not getting timely access to public services.

However, specific objectives of the social Audit engagements will depend on the context.

Benefits of the Social Audit

- ▶ **Increased social focus- Tool for Risk Management:** The organisation can better manage its risks, as it can enhance its social focus by covering any adverse social impacts highlighted by it in a social audit report.
- ▶ **Enhanced credibility:** It enhances organisational reputation. By demonstrating its social performance and commitment to social objectives, the organisation enhances its reputation among and gains political capital with stakeholders.
- ▶ **Helps in policy decision:** It affects positive organisational change. Information on social

performance allows management to take constructive action to improve it.

- ▶ **Increased confidence:** It provides increased confidence in social areas. Social auditing offers a roadmap on how to move forward productively on social issues and for addressing/managing stakeholder concerns.
- ▶ **Positive support from stakeholders:** It permits stakeholders to have a say in the organisation and its policies and behaviors.
- ▶ **Disclosure of achievements:** It allows the organisation to report on its achievements based on verified evidence rather than on anecdotes and unsubstantiated claims.

India and Social Audits

India is fast progressing both in terms of technological innovations as well as economic advancement. We no longer discuss the future of India. We say the future is India. There are four important factors that determine a country's future-

- ▶ *Growth* - Rate of growth, quality of growth and scope of growth
- ▶ *Globalisation* - Trade, investment, communication
- ▶ *Geo-Politics* - Relations with neighbours
- ▶ *Governance* – Another important factor that is of crucial importance is "Governance". Good Governance refers to a system which ensures participation and efficiency, but most importantly Good Governance must ensure Accountability.

Why Social Audit is Required in India:

Former Prime Minister late Shri Rajiv Gandhi had once famously said that only 16 Paise out of one Rupee sanctioned by government reach poor. In an article in 19th December 2004 edition of Times of India, Aiyar Swaminathan had commented that "Likelihood of money reaching the poor would be higher if we simply drop the money by helicopter or gas balloon into rural areas than route it through employment programmes". The situation with respect to our government/public schemes has not changed much since then. Even today a crisis of credibility, confidence and trust persists with respect to government projects, programmes and schemes. High economic growth is threatened by corruption at all levels. Leakage of funds in public programmes and misuse of shareholders and stakeholders resources is a common scenario. There has been a growing tendency of depriving the marginalised in the name of "Development". Of late, it is being noticed that 'Social Conscience' is fast eroding and the Means don't matter— the End justifies any means. Inequitable resource allocation is a common concern in the country. This background calls for the

culture of social audits to take roots in the country, in both private and public sector.

Social Audits in India (Present Status):

- Social audit is one of the audit functions with focus on monitoring various programmes. In India, it is used in the context of the effectiveness of the schemes/programmes run by the Government of India
- Social Audit in India does not ordinarily have any relation with corporate or business institutions.
- Companies engaging in Corporate Social Responsibility (CSR) do not generally produce a social audit report regarding their organisations.
- Social Audit in India is usually targeted at the public works by the government and usually with a methodology of involving public through physical verification of works, records assessment, public hearing and mass mobilisation, etc.
- Social Audit is used for exposing corrupt practices of public administration or enforcement of rights.

Social Audit gained significance especially after the 73rd Amendment of the Constitution relating to Panchayat Raj Institutions. That empowered the *gram sabha* to conduct Social Audits in addition to its other functions, and it was by far the only legislative reference to the concept of social Audit. The Right to information Act, 2005 is also a key pillar of support for Social Audit system in India. This was enacted by Parliament of India to provide for setting out the practical regime of the right to information for citizens. Section 17 of National Rural Employment Guarantee Act, 2005 provides for regular “Social Audits” so as to ensure transparency and accountability in the scheme. ”

Legislative Support Available to Social Audit in India

(a) The 73rd amendment of the Indian Constitution: Social Audit gained significance especially after the 73rd Amendment of the Constitution relating to Panchayat Raj Institutions. That empowered the *gram sabhas* to conduct Social Audits in addition to its other functions, and it was by far the only legislative reference to the concept of Social Audit.

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The Act applies to all states and union territories of India, except the state of Jammu and Kashmir. This Act also requires every public authority to computerise records for wide dissemination and to proactively publish certain categories of information so that the citizens need minimum resources to request for information formally. This is again a support for Social Audit system in India.

National Rural Employment Guarantee Act, 2005 (NREGA): Section 17 of this Act provides for regular “Social Audits” so as to ensure transparency and accountability in the scheme. It is the responsibility of the state government to conduct the Social Audit. The state government will conduct the Social Audit according to the pre-designed “Schedule of Social Audit”. The state government is to ensure that the agencies for conducting Social Audit are trained.

The Draft “**NREGA Transparency and Public Accountability Rules**” lay down detailed guidance for conduct of Social Audit.

The government has been instrumental in establishing an independent Social Audit Society for carrying out the Social Auditing of NREGA in the state. This society is called “**Society for Social Audit**”



At present Social Audit is conducted by various agencies appointed by Central and State Government. However, Chartered Accountants can play a vital role in the social reporting framework by ensuring the effectiveness of the social audit programme in non-corporate as well as corporate sector, which in turn would contribute positively to the society at large. Chartered Accountants with social sector orientation and working collaboratively with social sector professionals are eminently suitable to undertake capacity building and training of human resources who will be involved in undertaking the actual Social Audit. ☺☺

Other social sector programmes also laid down provisions and procedure for "Social Audit". For example:

The ministry of Housing and Urban Poverty alleviation has laid down Social Audit methodology and operational guidelines for various schemes. The Andhra Pradesh Government engaged MV foundation, a voluntary organisation working on the issue of child labour and children's right to education, to conduct "Social Audit" of Mid-Day Meals in Andhra Pradesh.

Social Audit and Chartered Accountant

It is very much clear that the scope of Social Audit is much beyond financial audit.

In a commercial organisation, many of the issues have the potential to be translated into financial terms. But in the case of non-profit organisations (NGOs), it becomes more difficult. The whole process of involvement for transformation would not be possible to be translated into financial terms easily.

The financial audit would lose some of its significance if the concept of impact cannot be integrated in it. Therefore, a process of Social Audit would look at the whole gamut of the impact the programme has on communities and eventually to judge its success.

We also need to recognise the fact that Social Audit is not completely in the domain of Chartered Accountants as they involve various tools and processes which may not be their domain of expertise. Therefore, we need to look at ways and means to integrate Social Audit components to the existing financial audit to make it more effective.

Role of Chartered Accountants in Social Audit:

At present Social Audit is conducted by various agencies appointed by Central and State Government.

However, Chartered Accountants can play a vital role in the social reporting framework by ensuring the effectiveness of the social audit programme in non-corporate as well as corporate sector, which in turn would contribute positively to the society at large.

A **Social Auditor** is expected to possess certain characteristics, which are as follows:

- (a) **Strong Network:** To conduct Social audit of large public programmes a strong network of Social auditors is required.
- (b) **Independence and Unbiasedness:** The Social Auditor should have no stake in the outcome of the Audit and should be totally independent of management and its system.
- (c) **Expertise and knowledge:** The Social Auditor should be someone who specialises in conducting social audits with the appropriate training and experience.
- (d) **Inquisitiveness and professional skepticism:** Social Auditing requires someone unwilling to accept things at face value and capable of drilling down deeper to uncover issues that are deeper than what appears prima facie.
- (e) **Ability to understand impact of programme/corporate actions in their wider social context:** Social performance must be understood within the context of a diverse stakeholders and a diverse set of perceptions, values, objectives, etc. An effective Social Auditor must be both willing and able to consider a variety of sources and perspectives for an understanding of social performance.
- (f) **Adhere to standards:** The Social Auditor should be able to follow certain standards in their Audit Process and standards on reporting so that the users of Social Audit reports are able to rely on the information contained in those reports.

Chartered Accountant as a Social Auditor

Given the above characteristics, Chartered Accountants are the one of the groups of professionals that is able to understand and to fulfill the objectives and requirement of Social Auditors.

Chartered Accountants with social sector orientation and working collaboratively with social sector professionals are eminently suitable to undertake capacity building and training of human resources who will be involved in undertaking the actual Social Audit.

(a) Professional Training: By professional training in Auditing and being sworn to ethical standards, a Chartered Accountant possesses the required intelligence and independent mindset to deliver Social Audits in India.

(b) Regulatory Mandate: As of date, there is no regulatory mandate for Chartered Accountants to

act as Social Auditors or for any other professional body for that matter; However, creation of appropriate institutional mechanism for training and capacity building will be one of the key deciding factors for pre-eminence in this very critical and emerging area of professional services.

(c) The essential Requisite for Chartered

Accountant: The essential requisites for CAs to become the first choice as Independent Social Auditors are that they should be able to train themselves in two specific aspects, namely:

- (i) Social Auditing and Reporting Standards
 - (ii) Mapping Stakeholders and Social Indicators.
- (i) *Social Auditing and Reporting Standards:* Training on Social Auditing and Reporting Standards is a generic requirement as we all Chartered Accountants are already equipped for that.
- (ii) *Mapping Stakeholders and Social Indicators:* Mapping of Stakeholders and identification of social indicators that can be used for the purpose of Social Audit may vary from engagement to engagement as per the terms of assignment and purpose of the Audit. Chartered Accountants could rely on established Social Indicators that have been formulated by various agencies like United Nations, World Bank, Investment Commission of India, OCED and several others. These Indicators that are relevant for a particular engagement may need to be identified specifically by the Auditor after discussion with the various stakeholders groups who need to be interviewed in the planning phase. There is definitely a case for CAs to collaborate with practitioners of Social Science for Complex Social Audit Projects to add greater value to the users of Social Audit reports.

(d) Social Audit - Supply Side: On the supply side, CA



On the supply side, CA firms have the option of consortium to build capacity and methodologies specifically targeted for Social Audits. On the demand side there

is the need to push for regulatory mandate for Social Audit for Public utility projects undertaken by Government's Social Sector expenditure projects on the lines of MGNREGA. Certain such Projects where Social Audits could be looked at are *Rajiv Gandhi Gramin Vidutikaran Yojana, Sarva Siksha Abhiyan, Pradhan Mantri Gram Sadak Yojana, Pradhan Mantri Gramodyog Yojana, Swarna Jayanti Gram Swarozgar Yojana, Swarna Jayanti Shahari Rozgar Yojana and Bharat Nirman.*



firms have the option of consortium to build capacity and methodologies specifically targeted for Social Audits. Specific Training Modules and certification/ accreditation system could be introduced to encourage confidence in the minds of the users of Social Audit services about the quality standards being followed for audit engagements.

(e) Social Audit- Demand Side: On the demand side there is the need to push for regulatory mandate for Social Audit for public utility projects undertaken by government Social Sector expenditure projects on the lines of MGNREGA. Certain such projects where Social Audits could be looked at are as below:

- *Rajiv Gandhi Gramin Vidutikaran Yojana*
- *Sarva Siksha Abhiyan*
- *Pradhan Mantri Gram Sadak Yojana*
- *Pradhan Mantri Gramodyog Yojana*
- *Swarna Jayanti Gram Swarozgar Yojana*
- *Swarna Jayanti Shahari Rozgar Yojana*
- *Bharat Nirman*

An audit process also serves as a means of information to the stakeholders of the organisation to make informed decision. If the information generated and disseminated through the audit process is relevant for decision making, it will be very useful to the stakeholders.

Conclusion

Social Audit is proposed as a supplement to conventional audit to help government department/public agencies/ NGOs understand and improve their performance as perceived by the stakeholders. Chartered Accountants belong to a highly respected and trusted profession and they are committed to maintain the dignity of the profession. As key professionals, CAs can contribute their services towards development of national capacity building as a partner of the Government of India in Social Audit. ■