

Social Audit

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practices, enhancement of stakeholder relationships, protection of the environment and business ethics. In India at present, social audits are optional for companies. With the emerging concept of corporate social responsibility, these reports provide valuable information to the stakeholders regarding the company's corporate social responsibility in various fields. They can choose whether to perform these sustainability and social audits and whether to release the results publicly for various stakeholders or only use them internally for management. For better disclosure and governance, the company should release the sustainability reports publicly for the stakeholders. Sustainability and social audit and its report supplements the annual report and are being accepted by a small but growing number of multinationals.

Sustainability and Social Reporting

Sustainability reporting differs from the financial reporting. Financial reporting deals with reporting of financial performance of the company whereas sustainability reporting deals with reporting of sustainability and social performance of the company. Sustainability and social reporting involves reporting and auditing an organisation's policies, procedures and impacts with respect to employees, communities (local and global), suppliers, customers and the environment. It may be measuring and costing physical emissions and social externalities so as to compute sustainability level of profits and reporting on the economic, social and environmental aspects of organisational activity. It should be an approach that creates long term shareholder value by embracing opportunities and managing risks deriving from social, environmental and economic developments. This can involve disclosure regarding commitments to workplace conditions, fairness and honesty in dealing with suppliers, customer service standards, community and charitable involvement and non-exploitive business practices with various stakeholders. Sustainability Report indicates how the progress contributes towards the long-term prospects as a company and to the society as a whole.

These reports together with corporate governance and other similar reports proves out to be quite useful for stakeholders in analysing the company's social initiatives. There are various sustainability reporting guidelines like Global Reporting Initiative (GRI), Triple Bottom Line accounting, etc., which can be adopted by the companies which opt to disclose these reports. The Global Reporting Initiative (GRI) is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development. Its Framework is a reporting system that provides metrics and methods for measuring and reporting sustainability-related impacts and performance

Need and objective of Sustainability and Social audit

"The business of business is business" has outlived its utility and relevance, and societal responsibilities of the corporates have become the buzzword in the international business arena. It is being increasingly recognised that being a responsible corporate citizen is important in ensuring long term success of a company. To face the formidable challenges of the new millennium, the corporate sector has to be empowered with a new vision, dynamic mission and new mandate to follow best practices of governance which includes sustainability and social reporting. The organisation should be committed to embedding principles of sustainability in their growth model by undertaking various initiatives to help enhance energy security and conserve the natural environment. Sustainability and Social audit has gained significance in the era of corporate social responsibility as nowadays corporations are expected not just to deliver value to consumers and shareholders but also to meet environmental and social standards which are desired by various stakeholders. Balancing the social responsibility with the business responsibility is imperative in the 21st century. It is needed so that the enterprise can effectively monitor its sustainable and social performance. It allows an enterprise to report on its achievements based on verified evidence rather than on anecdote and unsubstantiated claims. A natural result of most sustainability initiatives will be a reduction in costs as companies will look for ways to reduce consumption (raw materials, energy etc.), increasing the efficiency and effectiveness of business practices, and exploring new and

innovative product and services which will result in better operational performance. These types of audits help to create, improve and maintain a positive public relations image among various stakeholders.

Advantages of Sustainability and Social Audit

In the 21st century, the Sustainability and Social audit has gained significant importance. Companies are willing to have these type of audits periodically for their various stakeholders. Some of the benefits which are derived from this type of audit include:

- Sustainability report helps to create, improve and maintain a positive public image of the company among its stakeholders.
- It provides an idea that a company is able to meet its environmental and social standards in an efficient and effective manner.
- One aspect of social audit includes how the organisation is, its work environment and workers' pay and benefits. With the help of these audits, companies are able to attract talent globally, as people are inclined towards companies which have better work environment and workers' pay and benefits.
- These types of audits also provides the information to stakeholders that the organisation is fulfilling its corporate social responsibility which is now becomes a mandatory for specified Indian companies as per the Companies Act, 2013.
- This type of audit facilitates organisational learning on how to improve the social performance and increases the accountability of the companies.
- It also indirectly improves financial performance of companies as more suppliers and customers will be willing to trade with the company that have better approach towards the environment and society.
- It improves the relationship with the stakeholders and increases the transparency. Stakeholders are interested in those organisations which have better transparency.
- It allows the company to assess its impact on the environment, the community, and society and if the company assesses that its activities have a negative impact on the environment and society, then it can take the corrective action with the help of these audits.

But the sustainability and social audits possesses risks too:

- These audits may result in serious problems being uncovered that the company would prefer not to disclose. In that case, only positive things will be disclosed by the management.
- The sustainability and social audits and reporting may result in stakeholder criticism and dissatisfaction.

Scenario of sustainability and Social Audit in India

Sustainability and Social audit at the global level is well recognised. Many multinational companies do report their environment and social audit and make them available for stakeholders which includes shareholders, government, society, suppliers, customers, *etc.* Though in India this type of audit is a new concept, but a number of companies are growing which get these audit done and report these sustainability and social report based on such audits. Companies like Reliance Industries, Infosys, Tata Consultancy Limited, Aditya Birla Group, Bharat Heavy Electronics Limited (BHEL), *etc.* provide for this audit and make the reports available to their stakeholders. These companies provide annually, sustainability and social reports based on some popular auditing procedures available at the global level like GRI (Global Reporting Initiative), Corporate sustainability reporting, Triple Bottom Line accounting, *etc.* BHEL in its sustainability reports, states that "Sustainability is an integral part of the company's strategy and is committed to be an environment friendly company in all its areas of activities, products and service, providing safe and healthy working environment." Infosys's sustainability report reads as, "Our sustainability strategy forms the basis of running business responsibly and successfully and we work with our internal and external stakeholders to define our sustainability strategies and goals." With the help of these reports, these companies are able to depict that for them,

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growth is not just centred on profits only, they place sustainable development at the core of their business decisions and align their sustainability strategy with the business goals which shows concern for safety, environment and communities that percolates in their decisions to design, build and develop all projects. Indian companies now understand that they should focus not only on profits but also on sustainable and environment development for the benefit of the society. It is expected that in the next decade, more and more companies will follow the sustainability and social audit and report them for the benefit of their stakeholders which will ultimately help the society at large.

Financial Audit vs. Sustainability and Social Audit: Comparison

One should understand the basic differences between the financial audit and sustainability and social audit. The table enumerates some of the basic differences between the two types of audit:

S. No.	Financial Audit	Sustainability and Social Audit
1.	Financial audit focuses on financial records only and do not report the sustainable and social performance of the organisation.	Sustainability and social audit focuses on measuring and improving the social performance of an organisation.
2.	Financial audit is narrow in scope as compared to social audit.	Sustainability and social audit is a wider concept as compared to financial audit.
3	Mostly, shareholders are interested in the financial records and financial audit.	This audit is done keeping in mind the interest of all stakeholders <i>i.e.</i> shareholders, community, environment, government, <i>etc.</i>

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4.	These audits are mandatory in nature for companies by virtue of the Companies Act, 2013	These audits are voluntarily in nature and are not mandatory, prescribed under the Companies Act, 2013.

Scope of sustainability and social audit

Social audit includes the way a company treats and contributes to its community, promotes fair working conditions and a better environment for work, and conveys transparent and honest accounting reports. Thus, social and environment audit includes assessment of community development, diversity, environment impact, international relationships, marketplace practices, fiscal responsibilities and accounting and financial responsibilities. Social and sustainability audit is auditing the social performance of the company which is useful for all its stakeholders. Though the scope of sustainability and social audit varies from company to company, generally the sustainability and social audit covers the following issues:

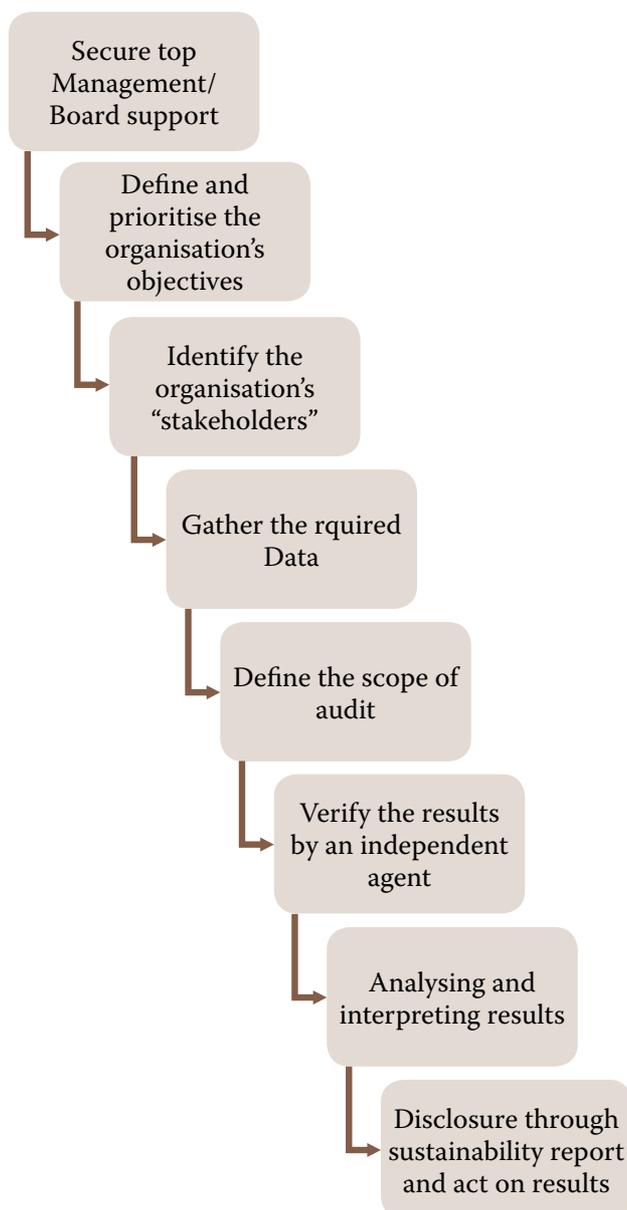
- Whether the organisation provides equal opportunity of work for all and do not discriminate on the basis of caste, colour, gender or religion.
- It also measures the quality of work life which the organisation provides to its workers including safety of workers, better work environment, fair reward system, *etc.*
- Social audit evaluates the steps and measures taken by the entity to protect the environment. Steps taken by the company to protect the environment should be reported in the sustainability report.
- It assesses on how the organisation is serving and satisfying its consumers at a right time, price and right quality.
- It analyses whether all the manufacturing divisions of the company are certified for safety management system and integrated with quality and environment management systems. In short, it analyses whether the company pays sufficient attention to health and safety at its workplace.
- These audit also assess whether the entity is carrying on the business in an ethical way.

Management representation should be taken regarding the same.

- The sustainability and social audit should assess the company's performance in relation to corporate social responsibility. CSR activities undertaken by the organisation should form the part of the sustainability and social reporting.

Sustainability and Social audit: Process

For understanding the sustainability and social audit, it is important to understand the process of the same. Though there is no specified process for social audit, yet the below table enumerates the process of sustainability and social audit in general:



Social and sustainability audit is auditing the social performance of the company which is useful for all its stakeholders

Role of professionals in social audit

Social audit will play an important role in improving the public image of companies both in India and globally. Most of the Accountants may feel - what their profession has got to do with sustainability or social reporting. But accounting profession has been centrally involved in corporate sustainability. Sustainability audit/reporting and Chartered Accountants are inseparable and one cannot expect to keep up the good practices of these reportings without the involvement of a finance professional. Professionals like Chartered Accountants, Company Secretaries, *etc.* can play a big role in conducting these types of audits. A chartered accountant by virtue of his knowledge and expertise in the field of accountancy, costing, audit and updated knowledge of various laws applicable for companies can be a big partner for successful implementation of the environment and social audit in India. Chartered Accountants have to play an important role in the whole process of governance, by helping to balance business practices and objectives of the board whose primary concern is to make profits and at the same time as good law abiding entities, follow the path of sustainable and social developments. As a corporate guardian, it is the Chartered Accountants who will have to ensure that they achieve the best sustainable and social initiatives in the organisation. The role of these professionals will further increase once these audits will become mandatory and applicable to the establishments. The professionals should explore these areas as there is a lot of scope in the sustainability and social audits and its reporting in India. The sustainability and social audit and its reporting is an attractive career opportunity for a

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finance professional and is one of the fastest growing area of accounting today.

Conclusion

Sustainability practices can provide an organisation significant competitive advantage in the form of reputation, lower costs, better compliance, greater levels of innovation and many others. These audits are quite useful for the stakeholders for analysing the company's performance, but care should be taken that the companies who report these sustainability and social audit have followed the same in true spirit and all the material things have been disclosed by the management in the

sustainability and social reports. If any material things are not disclosed by the management, then the sustainability report will not serve its purpose in a true manner. The reporting organisation should not deliberately limit the audit's scope in order to avoid controversies. For better reporting of these reports, the sustainability and social audit should be made mandatory for the selected list of companies on the parameters of net worth, sales or net profit, *etc.* and should be distributed to all shareholders and published on a company website, which should enable the user to access the performance and prospects of the organisation including its wider relationships, its reputation and its impact on the community and the environment. Professionals like chartered accountants should explore these areas, as there is a lot of scope for them to serve both the profession and the nation. A professional by virtue of his knowledge and expertise in various fields is competent enough to render value added services, in ensuring the compliance of these audits to protect the interests of various stakeholders. ■



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