

Social Audit of Corporate Social Responsibility Activities in India- A Step Towards Good Global Corporate Citizenship



CSR Committees of Corporates in India are directly responsible for monitoring the implementation of CSR policy, by developing a transparent monitoring mechanism in terms of the Section 135(3)(c) of Companies Act, 2013. The Board of Directors is directly responsible to ensure a minimum spend of 2 per cent of profit on the CSR activities, report reasons for any unspent amount in the Directors' Report and disclose its content on the company's website. Hence, companies are expected to develop a sustainable CSR roadmap to help determine both compliance and social relevance with the said Act. The social audit of corporates is an emerging and a growing area of audit being conducted with an objective to ascertain whether CSR activities are in line with the CSR policy approved by the Board and also in line with the Schedule VII of the said Act. Read on...

Introduction

The concept of "social audit" has been derived from the concept of corporate social responsibility (CSR) that is followed by corporate entities around the globe, where, Social Audit refers to the audit of social responsibility role performed by a corporate entity. Social Auditing is the process, whereby, an organisation can account for its social performance,

report on and improve that performance. Social auditing provides an assessment of the impact of an organisation's non-financial objectives through systematically and regularly monitoring its performance and the views of its stakeholders. Social audit has become a popular tool to determine a company's social impact in the community. It attempts to find out whether the benefits of the projects/activities reach the people for whom these were meant. Social audit brings in credibility to the evaluation of corporate social initiatives.

The concept of CSR followed by corporations around the world lays the foundation of social audits. Social audit serves as an instrument for the measurement of social accountability of an organisation. It is an in depth scrutiny and analysis



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of the working of an entity in which the public is involved vis-a-vis its social relevance. Corporates can assess their social performance through social reporting and social audits. Social audit helps in measuring a company's actual social performance against the social objectives it has set for itself, and how the decision making, mission statement, guiding principles, and business conduct are aligned with social responsibilities. A careful, accurate monitoring and evaluation of a company's social responsibilities and actions are important. It is not only because a company wants to be sure it is implementing policies as planned, but also because social responsibilities by their nature are open to intense public scrutiny.

What is a Corporate Social Audit?

A CSR audit aims at identifying the environmental, social or governance risks faced by an organisation and evaluating managerial performance in respect of those. A CSR audit is a process of reviewing and evaluating a corporation's social responsibility performance or an assessment of social performance of an organisation. A corporate social audit includes an assessment of a company's performance of CSR objectives. It evaluates measurable goals intended to help the business meet the expectations of stakeholders with social and environmental responsibilities.

Significance of Corporate Social Audit

The concept of CSR audit has emerged out of the growing awareness of the responsibility of the corporates/ businesses towards society. In the changing socio-economic scenario, social audit has assumed a special significance. In fact, society now demands something more from the auditing profession. Apart from expecting the traditional services from audit, a society now requires audit to become social-oriented for safeguarding the interest of various elements of the society. Social audit is very important in the present business environment as it helps in assessment of social contribution of the industry, presentation of annual social accounts, guiding the management and allocation of scarce resources.

Social audit of business is required to assess the social performance of industry. Social auditing as a means of assessment of social performance is helpful to identify social issues, evaluate performance and to inject social view into the thinking of managers. Social audit is a means to social accountability. It

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is a commitment to systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have social impact. Social responsibility audits are a process of evaluating a corporation's social responsibility performance. The purpose of the CSR Audit is to validate corporate performance against generally accepted criteria and report to the stakeholders the extent to which the auditee organisation "walks its talk".

Necessity of CSR Audit in India

Government of India has neither intended to audit CSR projects/reports/spending, nor wanted to micromanage the CSR spending, by monitoring CSR projects undertaken by a company. Further, neither the Companies Act, 2013 nor the Companies (Corporate Social Responsibility Policy) Rules, 2014 speak of any requirements of recognition of the auditors by the Government. Presently, CSR audit is a part of statutory audit, which can ensure only basic compliance rather than micro-level monitoring of the compliance. An in-depth analysis of compliance is possible only with the mandatory CSR audit.

High-Level Committee set up by the Government on monitoring the CSR activities had said that the Government should have no role in monitoring of CSR expenditure by corporates and this should be the job of their respective boards and managements. Ruling out the need to monitor the CSR spend by corporates, the panel said that the existing principle of 'comply or explain' is sufficient for the time being and the government should have no role to play in engaging external experts for monitoring the quality and efficacy of CSR spend, as the Boards and the management are sufficiently empowered to engage any external firm, if they want. The six-member committee was of the view that since the initial period is the learning phase, CSR should be reviewed after three years.

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Union Minister of State for Law and Justice, and Corporate Affairs has also said that the Ministry would also like to get the CSR spend audited in the coming years. Certainly, the Government would like to take steps in this direction, as it is under deliberation that why not a CSR audit, when it is a yearly spending of around ₹15,000/- crore, and auditing of corporates should include everything.

March 2018 that the Government is contemplating the auditing of CSR spending. He has said that the CSR spending by businesses warrants auditing as their total spend of about ₹15,000/- crore a year has the potential to transform the rural economy by complementing the Government's efforts. He has further said that the Government was in the process of improving the procedures relating to CSR spending outlined in the Companies Act, 2013.

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But, corporations would need to assess and audit their projects either on their own or through qualified third-party assessors/auditors appointed by the company. Mature companies should consider putting in place frameworks to monitor and verify implementation of CSR projects through third party audits, if required. Social responsibility audits rely on a process of accounting known by various names, including social accounting, sustainability accounting, corporate social responsibility reporting, Environmental and social governance (ESG) reporting and triple-bottom-line accounting.

In most countries, existing legislation regulates only a fraction of accounting for socially relevant corporate activity. In consequence, most social, environmental, and sustainability reports are produced voluntarily by corporations themselves and are not held to the same legal standards as financial

reporting. Organisations may also hire external firms to conduct CSR audits. These often have more credibility than internally generated reports. Having third-party groups conduct social audits is one way that corporations are held accountable for their CSR performance.

Corporate social audit and social impact assessment can prevent corruption and ensure proper application of social responsibility programs, by development of methodologies and processes to review and verify official records of expenditures and assess the actual impact of social projects. The social impact assessment of CSR programs also substantiates the influence and effects of the project and activities based on qualitative and quantitative indicators. CSR audit provides an effective means to ensure that CSR projects are conducted effectively and are helpful to target beneficiaries.

CSR audit and social impact assessment can help to validate that corporate social responsibility programs meet their intended purpose and objectives. It enhances the efficiency and effectiveness of CSR projects through integrated and value-added feedback mechanisms. It aligns CSR programs with a structured, process-based international management system framework and a set of social best practices. It increases asset values through exhaustive CSR program documentation. It fulfills the expectations of CSR project stakeholders.

The CSR policy of a company will be the ultimate arbiter in defining what a permissible CSR activity is. This policy would need to be accurately aligned to the CSR Rules and Schedule VII that are finally decided by the MCA. All these would need to be in sync with the letter and spirit of Section 135 of the Companies Act, 2013. In order to ascertain an organisation's effective CSR policy, practices and culture, the concept of CSR auditing in organisations is becoming key. CSR audit is a tool for decision-making and for strategic management. Corporates would need to assess and audit their own CSR

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Social audit gained significance after the 73rd Amendment of the Constitution of India relating to *panchayat raj* institutions. This Act is known as the Constitution (73rd Amendment) Act, 1992, which came into force on 24th April 1993 to provide a constitutional status to the *panchayati raj* institutions and it has empowered the *gram sabhas* to conduct social audits in addition to its other functions

projects.

Guidance Note on Accounting for Expenditure on CSR Activities [GN (A) 34]

The Council of The Institute of Chartered Accountants of India (ICAI) had issued a *Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities*, which came into effect from 15th May 2015. During the pendency of the finalisation of this Guidance Note, the Corporate Laws and Corporate Governance Committee of the ICAI had issued *Frequently Asked Questions (FAQs) on the Provisions of Corporate Social Responsibility under Section 135 of Companies Act, 2013 and Rules thereon* as an interim guidance, with regard to certain accounting issues.

These FAQs give clarifications regarding treatment of CSR spending in the books of accounts and disclosures in the financial statements. These FAQs are guidance to such interpretation and have to be read in the light of the clarifications issued by the Ministry of Corporate Affairs as per the Circular No.21/2014 dated 18th June, 2014 and a liberal interpretation has to be taken in the matter. On issuance of this Guidance Note on Accounting for Expenditure on CSR Activities, the said FAQs related to areas covered by the Guidance Note stand withdrawn. This means the FAQs are still relevant with respect to those matters, which were covered by FAQs, but not dealt with by the Guidance Note.

Since what constitutes the CSR activities had been specified in the Schedule VII of Companies Act, 2013, the *Guidance Note* seeks to provide only guidance on the aspects of recognition, measurement, presentation and disclosure of expenditure on activities relating to Corporate Social Responsibility as per the provisions of Section 135 of the Act, read with the Companies (Corporate Social

Responsibility Policy) Rules, 2014. Moreover, it deals with many important questions like provisioning of unspent amount, income earned from CSR projects, assets arising out of CSR expenditure, etc. The Guidance Note is expected to bring about uniformity of practice for companies in India. It also aims to bring about greater transparency in the area of accounting for expenditure on CSR activities.

Regulatory Mandate for Chartered Accountants to Act as Social Auditors in India

Social audit gained significance after the 73rd Amendment of the Constitution of India relating to *panchayat raj* institutions. This Act is known as the Constitution (73rd Amendment) Act, 1992, which came into force on 24th April 1993 to provide a constitutional status to the *panchayati raj* institutions and it has empowered the *gram sabhas* to conduct social audits in addition to its other functions and it is so far the only legislative reference to the concept of social audit. Social audits are mandatory as per the 73rd Constitutional Amendment made in the year 1993, through which the village communities are empowered to conduct social audit of all development work in their respective villages and the concerned authorities are duty bound to facilitate them.

The conduct of social audit of the expenditure incurred in a *gram panchayat* under Section 17(1) of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 had been mandated. The MGNREGA was the first law to provide for Statutory Social Audit. The Ministry of Rural Development, Government of India, in consultation with the Comptroller and Auditor General (CAG) of India had issued the Mahatma Gandhi National Rural Employment Guarantee Audit of Scheme Rules, 2011 (Social Audit Rules) u/s. 24(1) of the MGNREGA, 2005 on 6th April 2011 for conduct of social audit in conformity with the Auditing Standards issued by the C&AG of India and an audit report will be prepared for submission to the President of India, under Article 151 of the Constitution of India.

Rule 2(1) and (2) of the Mahatma Gandhi National Rural Employment Guarantee Audit of Scheme Rules, 2011 mandates the audit of the accounts of a scheme under the MGNREGA, 2005 for each district as well as of the State Employment Guarantee Fund for each year be carried out by

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Chartered Accountants, who shall submit the accounts of the scheme together with the audit report thereon to the State Government. This kind of legislative support is required for conducting social audit of CSR activities and various Governmental welfare schemes/development Programmes in India, with diligent initiatives of the respective Ministries of Government of India.

Technical Guide on Social Audit – A Publication of IASB of ICAI

Internal Audit Standards Board (IASB) of ICAI had taken the first step on the evolving concept of social significance and brought out a noteworthy publication called as a *Technical Guide on Social Audit* in December 2010 that deals comprehensively with Social Audit as an efficient tool for promoting accountability and the related concepts and practices in detail. This publication covers in detail the concept of social auditing, need for social auditing, various contexts of social auditing, regulatory and voluntary codes for social audit, framework for social auditing, role of Chartered Accountants in Social Audit, data for social auditing and operationalising social auditing in India.

This Technical Guide on Social Audit also includes sample social audit questionnaires with respect to MGNREGA and a government educational programme. Appendix-I illustrates indicators of social development which have been defined under the Millennium Development Goals. Appendix-II lists social indicators issued by the OECD and Appendix-III includes various standards that have been introduced to serve the purpose of social accounting/reporting. The mechanism of social audit is dependent on the support provided by reporting and assurance. Chartered Accountants have a role to play by providing assurance to this mechanism through assurance process. This publication would help the Chartered Accountants to be well-equipped in this emerging area of Social Audit and take a lead.

Guide on CSR Audit – A Publication of IASB of ICAI

IASB of ICAI had taken another initiative on the emerging areas of CSR Audit and brought out a landmark publication called as a “Guide on Corporate Social Responsibility (CSR) Audit” in May, 2002. This Guide covers an Introduction to CSR, International Initiatives, CSR-Indian Scenario, International CSR Standards, CSR Reporting Requirements and CSR

Audit. This Guide also covers CSR measures which are part of the Companies Act, 2013. It also contains a CSR Checklist on four aspects, i.e. Management and Strategy Level, Employee Response Level, CSR Implementation Level, Health and Safety.

Internal auditors should have updated knowledge of the global and Indian standards and initiatives related to the CSR in order to play a meaningful role in assessing the effects of business activities on society, developing and implementing a CSR strategy and commitments, adequacy of internal control and review mechanisms and measuring, evaluating and reporting on CSR activities to the management. Considering this need, the IASB of ICAI had issued this publication for the guidance of the members and other readers, which can be used as a primer on CSR audit.

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. CSR audit is a key element on building the quality and credibility of CSR reporting, despite variations in approaches adopted and different forms of assurance. Internal auditors might be involved in CSR at various levels and have an opportunity to make value additions to the corporate sustainability reporting process of their organisation. They must have a good knowledge and understanding of prevalent CSR concepts. This Guide would certainly provide an appropriate guidance to the members of ICAI on CSR audit.

Conclusion

Social Accounting and Reporting Standards need to be developed/adopted so that the social performance of corporates can be measured on a standard and consistent basis. The lack of Social Audit Standards is one of the major roadblocks in India for successful implementation of social audit. The other important lacunae in the system as is anywhere else in the world is the lack of regulatory demand for corporate social audits. There is an immediate need of specific regulatory requirements for conducting social audit, as a mandatory measure for every organisation to assess its direct or indirect impact on society. Chartered Accountants as social auditors are well equipped and capable to perform and deliver social audits in India. CSR audit with adoption of the international CSR standards by the corporates in India will be a step towards good global corporate citizenship. ■