

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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## SOCIAL AUDIT REPORT CARD OF SOCIAL PERFORMANCE

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## ABSTRACT

A Social Audit is a systematic study and evaluation of an organization's social performance as distinguished from its economic performance. In social audit, a systematic attempt is made to identify and evaluate those activities of a business which have social impact. Social Audit has huge prospects in future for the betterment of the Social Community. This paper is an effort to explore the conceptual foundations, need and coverage of social audit. The paper also outlines different steps which must be accomplished in the process of social audit. Finally the paper presents an overview of present status as well as legal framework of social audit in India.

## KEYWORDS

Accountability, Business, Social Cost and Benefit Analysis, Social Institutions, Transparency.

## INTRODUCTION

Humanity has always strived for an ideal society. The relationship between business and society has always been a subject of intense debate. Society has always refused to allow permanent concentration of power in the hands of any one without commensurate responsibility. Business must lend itself to public scrutiny about what is happening behind the opaque walls of corporate business entities. As social institutions, companies are required to align their functions to the social dictates. The position of the companies in the society has got to be seen in the light of social institutions existing for a social purpose. All this is not philanthropy, but a bounded duty of companies towards those who comprise the work force, including managers, and who also constitute the consuming public who keep the companies going.

## GENESIS AND CONCEPTUALISATION

The overwhelming demand in context of business organizations having social obligation gave birth to social audit. The concept of social audit was pioneered by Charles Medawar long bank in 1972. It has a long history in the United States, and the United Kingdom in the 1970s; and to some extent in our country in the late 1980s. The term 'Social Audit' broadly refers to that area of corporate social performance that involves developing and using information about corporate activities of significance to the society and how these responsibilities have been carried out.

In social audit, a systematic attempt is made to identify and evaluate those activities of a business which have social impact. A social audit is a systematic study and evaluation of an organization's social performance as distinguished from its economic performance. Social audit tries to evaluate positive impact of an organization's activities on the social wellbeing of people. It is assessed by way of social cost and Benefit analysis of its activities. Social cost may be

- Usage of scarce natural resources,
- Environmental pollution,
- Deforestation,
- Spread of occupational diseases,
- Injuries/deaths at work place due to poor maintenance policies,
- Health hazards to the nearby population, etc.

Social Audit refers to accounting for the real benefits realized by the stakeholders to whom the government as a part of the development initiatives and the organizations as a part of their social responsibilities are extending social infrastructures – either through financial aid or by setting up the required infrastructure that could bring in a holistic development of the society at large. In other words, it refers to the process of checking the extent to which the benefits extended by the government, its agencies and its participants or organizations operating in its economic setup have been realized by their stakeholders, by setting up necessary control system and monitoring system in place.

Social audit forces organization more socially accountable for the objectives they declare. Social Audit may be defined as an examination of the social performance of a business enterprise towards the society. Social audit is conducted to assess how much is the contribution of business enterprise to the society. So, Social Audit is one which is done by an independent person in order to examine the expenditure incurred by the business enterprise towards social activities as well as the monetary value of the social benefits emerged out of such activities and also how entities are discharging their social obligations for the protection of the environment pollution – free environment (Basu, 2004).

The earliest use of the term 'Social Audit' in the context of business can be attributed to Theodore J Kreps, whose monograph on **Measurement of Social Performance of Business (1940)** had defined and described the idea of social audit, albeit in somewhat different sense than those used by the other writers in the 1970s. He suggested that, "The acid test of business is not the Profit and Loss Statement but social audit". Social audit is concerned with the possible influence on the social quality of life instead of the economic quality of life. Social audit leads to a report on the social performance of a business unit.

Bowen's work had set the standard for social audit, which he conceived to be "an appraisal of individual corporations ... by persons outside the company who would have a more disinterested and detached view of its activities than company employees" (Bowen, 1953). Bowen's work had drawn wider attention from the Management discipline and provided it with a mother lode of materials for research in an emerging field that came to be known as SIM or Social Issues in Management, and also for an interdisciplinary field of study that found its place in the curriculum of many business schools (Wood, 1991).

Batra (1996) in his study argues that social auditing is playing a key role due to increased awareness among corporate sectors that every enterprise should contribute towards social goals. Thomas (2005) highlights social audit as a principle for creating universal value, identifying the pillars for Social Audit, as social cultural, administrative, legal and democratic system which acts as the foundation for operationalising Social Audit.

Social Audit ensures the involvement of potential beneficiaries and other stakeholders of an activity or project from the planning stage to the monitoring and evaluation of that activity or project. Social Audit is supplement to the conventional audit. It is relevant both in Private Sector as well as Government Sector, although it is more urgent in Government Sector where funds are drawn from the state exchequer i.e., public money.

**Social responsibility disclosure model (Abt, 1977)** proposed by Abt Associates (a consultant firm with clerk Abt as its president) included a Social Income Statement showing the benefits to the company, to the staff, to the general public and the community. Social audit consists of examining and verifying the financial resource mobilizations into the channels of social objectives, it is necessarily based on some basic principles like

- Principle of Transparency,
- Principle of Participation,
- Principle of Accountability,
- Principle of Responsibility,
- Principle of Comparison etc.,

which makes it more stringent and effective.

Social audit is a process audit rather than an audit for results. It can determine only what an organisation is doing in social areas, not the amount of social good that results from these activities. Social audits use both qualitative and quantitative data. Normally a firm uses as much quantitative data as possible, and then supplements it with qualitative data. On March 30, 1995, the first conference on social audit was held at Edinburgh, organized by the New Economic Foundation (NEF). The conference was followed by a workshop where Social Audit was defined "as the process whereby an enterprise measures and reports on its performance in meeting its declared social, community or environmental objectives". In India, Tata Iron and Steel Company (TISCO) introduced the social audit element in the report in July 1980. They presented a report on Social Audit to show their accomplishment of social obligations.

### BENEFITS OF SOCIAL AUDIT

The benefits of Social Audit are as follows:

- Social audit enables the company to take close look at itself and understand how far the company had lived up to its social objectives.
- Social audit brings about an encouragement for social concern in the organization.
- Social audit provides data for comparative effectiveness of different types of programmes.
- It helps to earn an organization a good reputation in the society.
- It trains the community on participatory local planning.
- It encourages local democracy.
- It encourages community participation.
- It promotes collective decision-making and sharing responsibilities.
- It develops human resources and social capital.

### TYPOLGY OF SOCIAL AUDIT

Social audit may be of the following types:

- Social Income Statement and Balance Sheet Audit,
- Social Performance Audit,
- Government Mandated Audit and
- Social Programme Audits.

### COVERAGE OF SOCIAL AUDIT

The list of activities that would be the Subject of social audit, according to **Bowen** are:

- (i) Prices,
- (ii) Wages,
- (iii) Research and Development,
- (iv) Advertising,
- (v) Public Relations,
- (vi) Human Relations,
- (vii) Community Relations and
- (viii) Employment Stabilization.

The points where Social Audit must concentrate are:

- ✓ Community participation,
- ✓ Ethical Practice,
- ✓ Discriminatory Event,
- ✓ Environmental Factors,
- ✓ Compliance of Rules or Legal obligations,
- ✓ Identification of Hindrance and Suggestion of Measures,
- ✓ Financial Comparison etc.

### METHODOLOGY OF SOCIAL AUDIT

The social audit is a new concept. As a result there are very few guidelines for making it, and there is no standard procedure to follow. Most companies are at the beginning of the learning curve with social audits. However, in order to conduct social audit task successfully, there are six steps which must be accomplished in the process of social audit:

- Step 1: Preparation of Groundwork or Gathering Information,*
- Step 2: Determining the Audit Parameter and Identifying the Stakeholders,*
- Step 3: Preparation of Books of Social Accounts,*
- Step 4: Use of Social Accounts for The Purpose of Verification,*
- Step 5: Interpretation and Comment and*
- Step 6: Feedback and Review.*

The decision to conduct social audit must be internal and voluntarily taken up. This would help in improving the image of an enterprise as a socially responsible one. **Bowen (1953)** envisaged social audit as a team work. Bowen also suggested about the desirable qualification of the auditor-who should be:

- (i) Oriented towards the social point of view,
- (ii) Conversant with business practices and problems and
- (iii) Technically trained in such fields as law, economics, sociology, psychology, personnel, government, engineering, philosophy, and theology.

Understandably, the requirement of such extensive qualifications generally not being endowed in one person. **Spreckley (2008)** in the book "Social Audit Toolkit" had stated the cyclical format structure of social audit consisting of

- Governance Statement  
(Constitutional Alums Organisational Rules, Operational Objectives, Policies, Value Base set objectives)

- Social Accounting and verification  
(Social Accounting framework, Social Audit Report, Social Accounting Monitoring)

- Internal view and organisation and  
(Internal SWOT Analysis, Roles, Tasks, Responsibilities, Internal Position Analysis, Set objectives)

- External view and Stakeholders  
(External SWOT Analysis, Stakeholder Record, Stakeholder Dialogue, Position Analysis, Set objectives)

An effective social audit should ensure that there is efficient governance practices in place and the stakeholders are provided with access to the required outcomes of social audit which could help them to evaluate the extent of value created by such programmes in the society.

### SOCIAL AUDIT IN INDIA: PRESENT SCENARIO

- Social audit in private sector is still at nascent stage as there is no legal binding for organizations to go for social audit reports.



- Social audit in Government Sector currently is mainly focused on exposing corrupt practices of Government functionaries.
- Of late, social audit has been used to enforce rights of citizens, thanks to Right to Information Act and introduction of Citizen Charters in the Government Offices.
- As there is no punitive action prescribed in the legislation, social audits have not become order of the day and almost all States in India are deficient in carrying out these audits as prescribed in the relevant legislations.
- Recently, the Centre has given the Comptroller and Auditor General a place in social audit of rural job scheme and direct the States to set up directorates to train auditors from civil society. A nominee of CAG would be present in social audits that gram sabhas would conduct twice a year. CAG would also do an annual audit as part of its mandate. Coupled with rigour of CAG's accounting, the exercise would also bring in the new concept of social audit in mainstream.
- The National Advisor Council (NAC) has decided to engage NGOs for conducting social audits as various minority organizations alleged that the development schemes for the community are misused.
- The Ministry of Housing and Urban Poverty Alleviation has laid down Social Audit Methodology and guidelines for various schemes sponsored by it.
- Some states have engaged even voluntary organizations/NGOs for conducting social audits of schemes like midday meals, issue of child labour, female foeticide, children's right to education, etc.

### SOCIAL AUDIT IN GOVERNMENT SECTOR

Social audit as a term was used way back in 1950s. There has been series of activities since then as more and more organizations have become actively involved in the topic. Evolution of team Anna as crusaders against Corruption, Creation of Central Vigilance Commissioner, Right to Information Act, Citizen Charters, and now proposed Jan Lok Pal Bill are all representatives of underlying sense of social audit among common masses and the Government has to bow before the wishes of the people and in the process there is a ray of hope that corruption, red-tapeism, nepotism and favouritism shall give way to a transparent Government. Government on its part is also on the path of streamlining systems and procedures.

### LEGAL FRAMEWORK OF SOCIAL AUDIT IN INDIA

The Social Audit in India got a legal status after incorporation of the 73<sup>rd</sup> Amendment to the Indian Constitution regarding Panchayati Raj Institutions. This Amendment gave powers to Gram Sabhas to conduct Social Audits and it was with this historic Amendment that the concept of Social Audit gained importance in our country. Section 17 of **Mahatma Gandhi National Rural Employment Guarantee Act, 2005** mandates Social Audit as, "The Gram Sabha shall conduct regular social audits of all the projects under the scheme taken up within the Gram Panchayat. The Gram Panchayat shall make available all relevant documents including the muster rolls, bills, vouchers, measurement book, copies of sanction orders and other connected books of account and papers to the Gram Sabha for the purpose of conducting the social audit."

**Right to Information Act, 2005** applies to all the states and Union Territories of India except the states of Jammu & Kashmir. However, J & K has also passed Right to Information Act, 2010, on similar lines. The Act has been a milestone in empowering citizens with the right to seek information from the Government on the issues of their interest and welfare. Central Government/State Government officers have been now displaying **Citizen Charters** in their websites as well as in their office premises specifying the ceiling on the time within which a particular work is to be performed by their functionaries. This has enabled citizens to lodge complaints in case the charter is not adhered practically. In fact, the Right to Information Act has been promulgated to provide every citizen of India a right to audit Government performance by way of asking questions in this regard.

### FUTURE EXPECTATIONS

Social audit in private sector is more of a choice than compulsion. As a result, private sector has not shown so much interest in going for social audit. It is expected that private sector will be made accountable to society by making Social Cost and Benefit Analysis mandatory for any profitable venture. In Govt. Sector, social audit will have to be strengthened by provision of punitive clause in the already running social schemes like MNREGA, JNNURM, Sarva Shiksha Abhiyan, Rajiv Gandhi Gramin Vidutikaran Yojana, Pradhan Mantri Gram Sadak Yojana, Swarn Jayanti Shahari Rozgar Yojana and Bharat Nirman as well as inbuilt clause of social audit and punitive action in case of default in the schemes to be launched in future.

### TO BE EFFECTIVE, THE SOCIAL AUDITOR MUST HAVE THE RIGHT TO:

- ✓ Seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency;
- ✓ Consider and scrutinize existing schemes and local activities of the agency; and
- ✓ Access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department.

### CONCLUSION

Social audit, which had started its journey as a discursive practice, is now subsumed under the larger field of corporate social responsibility. The notion of social responsibility, from which social audit emanates, is essentially a dynamic concept. Its philosophy remain unchanged, but the content which is accorded to its meaning may change in response to the social demands placed upon business.

For serving a useful purpose, social audit should be on a regular and systematic basis and the findings should be made public with an indication of the actions taken thereon. Since all the industries, that may be under the purview of social audit do not have the same features, industry – specific social audit programmes should be developed with an eye to the seasonal factors capable of raising typical issues. Social audit plays a vital role in transparency and accountability but it has still miles to go. Its present form of documentation is not considered to be consistent documentary evidence. Professionals like Cost Accountants can play a pivotal role in prescribing as well as conducting social audits. Even Social Auditing and Reporting Standards may also be framed. This will develop a Social Transparency Regime!

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