

Social Audit*

Introduction

Business organizations are mainly driven by profit, as it ensure their sustainability and growth. It is to be noted that the conducive business atmosphere is crucial for setting up of business entities, their operations and prosperity. However a business enterprise is largely influenced by ESTEMPLE factors (E-Economic, S-Social, T-Technological, E-Ecological, M-Media, P-Political, L-Legal, and E-Ethical). Further, if observed minutely, the mentioned factors are constituents and influenced by the society.

In light of this, there are certain social responsibilities which the organization need to conduct / fulfill for the benefit of the society and it is to note that the trend towards serving the society has been rising.

There are many business concerns/organizations who have taken a number of measures for the development of a society through developing games and sports activities, helping disadvantaged sections of the society and the physically challenged people and many more. The activities performed by the organizations towards the welfare of the society need to be evaluated. Social audit makes an attempt to assess the contribution of an organization to the society or the social performance of an organization. So, it is becoming a popular tool to determine a company's social impact in the community.

Social Audit - Brief Background

The word 'Audit' is derived from Latin word "Audire" which means 'to hear'. In ancient times, emperors used to recruit persons to get feedback about the activities performed by the kings in their kingdoms. The persons recruited by emperors were designated as auditors. These auditors used to go to public places to listen to citizens' opinions regarding various matters, like behaviour of employees, incidence of tax etc. Charles Medawar pioneered the concept of Social Audit in 1972 with the application of the idea in medicine policy, drug safety issues and on matters of corporate, governmental and professional accountability. According to Medawar, the concept of Social Audit starts with the principle that in a democracy the decision makers should account for the use of their powers, which should be used as far as possible with the consent and understanding of all concerned. The concept of Social Audit then evolved among corporate groups as a tool for reporting their contribution to society and obtaining people's feedback on their activities to supplement their market and financial performance.

* CA Govind Agarwal, Assistant Director, The ICSI

Views expressed in the Article are the sole expression of the Author and may not express the views of the Institute.

History of Social Audit		
Year	Country	Details
1988	Sweden	The first Social Audit was carried out in Sweden (1985–88) by John Fry and Ulla Resson, worklife researchers at the Centre for Swedish Working Life and published in Sweden in 1988 by Allmänna Förlaget, Stockholm (332 pp) under the title "Social Revision". It was the result of a three-year study of Sweden's central bureaucracy - The National Labour Market Board. The study was based on interviews and questionnaires with over 1,000 employees at all levels of the organisation throughout the country and became the subject of debate in the Swedish Parliament. It was an assessment of the institutionalization of a Democratic Rationality.
1979	India (Jamshedpur)	In India, Tata Iron and Steel Company Limited (TISCO), Jamshedpur, was the first company to perform social audits in 1979 for measuring its social performance.
1990	India (Rajasthan)	Mazdoor Kisan Shakti Sangathan (MKSS) started the concept of social audit while fighting corruption in the public works in the early 1990s.

Social audits originated and are increasingly popular evaluation tool to verify performance claims, under public programs, of government institutions. Social audits are now integral part of National Rural Employment Guarantee (NREGA) and many other government program of central and state governments.

What is Social Audit

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization.

A social audit is a formal review of a company's endeavors, procedures, and code of conduct regarding social responsibility and the company's impact on society.

A social audit is an assessment of how well the company is achieving its goals or benchmarks for social responsibility.

Ideally, companies aim to strike a balance between profitability and social responsibility.

Why Social Audits?

The purpose of corporate existence today is not limited to making profits or achieving growth. It extends beyond to embrace larger society. Social purpose of a corporate is thus to create value as assessed from perimeter of environmental, governance and social measures like conservation of the natural world- Climate change and carbon emissions, air and water pollution, customer satisfaction, data protection and privacy, governance standards etc. In fact failing to do so does severely impact their financial results, brand image and market capitalization.

So, if we look at from the point of view of companies or business perspective, a social audit refers to a formal evaluation (or audit) of a company's procedures and endeavors with regards to corporate social responsibility (CSR) and societal impact. Many companies formulate goals and objectives with regards to CSR initiatives, and the social audit is used to review to what extent they've reached their goals. It assesses how well a company is meeting its CSR objectives and provides an opportunity to identify areas for improvement.

Examples - Social Audit

- ABC Limited is a company that purchases and sells household items, and it claims to make donations in the form of offering groceries to needy families. In this case, it can be performed by thoroughly evaluating charity records and other documents to check and confirm the validity of the claims made by ABC Limited.
- After the research, it was found that ABC is doing a clean and green business, not causing any harm to the environment, and implementing only eco-friendly procedures. This assessment report will be updated on behalf of the company on its website. This report will be of great significance for investors who are planning to invest in the shares of ABC Limited.

Social Audit: Its Objectives

The primary objective of social audit is to monitor, track, analyze, and evaluate government performance, thus making public officials accountable for their actions and decisions. As an evaluation of government performance, a social audit exercise can be considered a mechanism of social oversight: that is, the control that citizens can exert on their government officials to ensure that they act transparently, responsibly and effectively. Social audit activities can help measure public policy consistency between promises and actual results. Verifying consistency between plans/programs/policies and actual results can lead to improvements in many governance areas, and can translate into economic and social benefits. It can also play a critical role as an anti-corruption tool in preventing corrupt practices and/or in providing evidence to expose wrongdoings. Ultimately, social audit paves the way to strengthen trust and confidence in the democratic governance process.

The objectives of social audit are as under:

1. To evaluate how well public resources are being used to meet the real needs of target beneficiaries;
2. To value the voice of the stakeholders including marginalized/poor groups whose voices are rarely heard;
3. To look at what the social enterprise is doing;

4. To make a comparison between actual performance and the organization’s goals;
5. To ascertain where improvements need to be made, and what those improvements should be;
6. To strengthen accountability and transparency in local bodies;
7. To assess the physical and financial gaps between needs and resources available for social aims and objectives;
8. To increase efficacy and effectiveness of local development programmes;
9. To scrutinize the various policy decisions keeping in view stakeholder interests and priorities, particularly of rural poor.

Social Audit vs. Financial Audit

Corporates are required to provide accurate reporting on social purpose and it’s fulfillment, by whatever name called, though may vary in scope as well - ESG reporting or sustainability reporting or BSR reporting or CSR reporting or Triple Bottom Line reporting.

Financial Audit	Social Audit
It gives focus on financial records and their scrutiny by an external auditor following accounting principles.	It is a wider concept as it has a greater scope for measuring, understanding, and improving the social performance of an activity of an organization.
It is directed towards recording, processing, summarizing, and reporting of financial data.	It provides an assessment of the impact of a department’s non-financial objectives through systematic and regular monitoring on the basis of the views of its stakeholders.

Social Audit in India

MCA and SEBI propounded and have brought out a framework on Social Responsibility - CSR/ BSR, and improvised it from time to time with the objective that the companies act socially in a responsible manner toward stakeholders including consumers, employees, and the society at large. India is reportedly the first country to legislate such requirements. There are some legislative supports available to Social Audit in India. The legislative supports are:

- **The 73rd amendment of the Indian Constitution:** Social audit gained significance 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.
- **Right to Information Act 2005:** This 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. This Act requires every public authority to computerize 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 (NREGA), 2005:** Section 17 of this Act provides for “Social Audit” so as to ensure transparency and accountability in the NREGA scheme. The State Government will conduct the Social Audit according to the pre-designed “Schedule of Social Audit” and ensure that the agencies for conducting social audit are trained. The approach paper to the Ninth Five Year Plan (1997-2002) emphasized social audit for the effective functioning of the Panchayat Raj Institutions and for achieving the goal of decentralization in India.

Social Stock Exchange in India

Securities and Exchange Board of India (SEBI) vide notification dated July 25, 2022, were amended the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (‘ICDR Regulations,’), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (‘LODR Regulations’) and SEBI (Alternative Investment Funds) Regulations, 2012 (‘AIF Regulations’) to provide a broad framework for Social Stock Exchange (SSE).

The detailed framework on Social Stock Exchange has been rolled out by SEBI via circular dated September 19, 2022 as follow:

- A. Minimum requirements to be met by a Not for Profit Organization (NPO) for registration with SSE in terms of Regulation 292F of the ICDR Regulations.
- B. Minimum Initial Disclosure Requirement for NPOs raising funds through the issuance of Zero Coupon Zero Principal Instruments in terms of Regulation 292K(1) of the ICDR Regulations.
- C. Annual disclosure by NPOs on SSE which have either raised funds through SSE or are registered with SSE in terms of Regulation 91C of the LODR Regulations.
- D. Disclosure of Annual Impact Report by all Social Enterprises which have registered or raised funds using SSE in terms of Regulation 91E of the LODR Regulations.
- E. Statement of utilisation of funds in terms of 91F of the LODR Regulations.

Annexure I : Guidance notes for listed/registered NPOs on disclosures of general, governance and financial aspects Annexure II: Guidance notes for all Social Enterprises (SEs) on AIR

For detailed framework :

https://www.sebi.gov.in/legal/circulars/sep-2022/framework-on-social-stock-exchange_63053.html

Annual Impact Report

Through this framework on Social Stock Exchange, SEBI mandated the Disclosure of Annual Impact Report (AIR) by all Social Enterprises which have registered or raised funds using SSE in terms of Regulation 91E of the LODR Regulations as under:

1. All Social Enterprises (SEs) will have to provide duly audited Annual Impact Report (AIR) to SSE within 90 days from the end of Financial Year.
2. The AIR shall capture the qualitative and quantitative aspects of the social impact generated by the entity and where applicable, the impact that is generated by the project or solution for which funds have been raised on SSE.

3. In case, an NPO is only registered without listing any security, the AIR must cover the NPO's significant activities, intervention, programs or projects during the year and the methodology for determination of significance must be explained. Additionally, if there is an activity, intervention, program or projects covered under a listed security, it will qualify as a significant activity, intervention, program or project.
4. For a Social Impact Fund where the underlying recipients of funds are SEs which have registered or raised funds using SSE, must disclose an overall AIR for the fund covering all investee/grantee organizations where the fund is deployed.
5. The AIR should at a minimum, cover the aspects described below.
 - (a) *Strategic Intent and Planning*
 - i. What is the social or environmental challenge the organization and/or the instrument listed is addressing? Has this changed in the last year?
 - ii. How is the organization attending to the challenge or planning to attend to the challenge? Has this changed in the last year?
 - iii. Who is being impacted (target segment)? Has this changed in the last year?
 - iv. What will be the outcomes of the activities, intervention, programs or project? Disclosure should include positive and potential unintended negative outcomes.
 - (b) *Approach*
 - i. What is the baseline status / situation analysis / context description at the start of the activity/intervention/programs or project and at the end of the last reporting period?
 - ii. What has been the past performance trend? (if relevant)
 - iii. What is the solution implementation plan and the measures taken for sustainability of activity/intervention/programs or project outcomes? Has there been any material change in your implementation model in the last one year?
 - iv. Please brief out alignment of solution to Sustainable Development Goals (SDGs)/national priorities/state priorities/ developmental priorities.
 - v. How have you taken into consideration stakeholder feedback in this reporting period?
 - vi. In the last year, what have you seen as the biggest risks to the achievement of the desired impact? How are these being mitigated?
 - (c) *Impact Score Card*
 - i. What are the metrics monitored and what has been the trend?
 - ii. Briefly include narratives of impact on target segment(s) in the reporting period.
 - iii. Beneficiary/Stakeholder Validation through surveys and other feedback mechanisms.

Further, Securities and Exchange Board of India (SEBI) rolled out framework for governing council of social stock exchange. The council will provide guidance to facilitate the smooth functioning of the operations of the Social Stock Exchange (SSE) with regard to registration, fundraising and disclosures by social enterprises. The council has been mandated for development of the SSE including listing of social enterprises and number of investors and oversee the listing function of SSE and provide guidance in laying down procedures for on-boarding and listing of social enterprises.

It will facilitate effective oversight on the adequacy of disclosures made by social enterprises and guide development of necessary systems and processes towards the same; review the functioning of the SSE, including feedback received from stakeholders, and any other matter related to governance and development.

Social Audit approach in South Africa

South Africa follow the Indian traditions principles with respect of social audit that have been established by the Mazdoor Kishan Shakti Sangathan (Association for the Empowerment of Workers and Peasants, or MKSS). MKSS was established in Rajasthan, India in 1990 with the objective of strengthening participatory democratic practices. It is one of the most effective social movements in India, best known for successfully achieving the enactment of the Right to Information Act. The demand for this act grew out of the struggle of workers in the Rajasthani state public works programme for a minimum wage. Sowmya Kidambi, an activist in MKSS, remembers how they posed one question: “When government spends public money, why can’t those records be made public?” The MKSS social audit methodology grew from this right to information campaign. The records that MKSS managed to secure were closely examined by workers in each village. They found that many of the infrastructure projects only existed on paper, were not completed, or that the quality was very poor. Discrepancies between what the records said the workers had been paid and the hours they had worked, and the workers’ actual work time and wages, were also discovered.

One of the most significant innovations of MKSS was its use of public hearings which government officials were invited to attend. Detailed documents containing official expenditure records were read aloud at community gatherings and community members gave individual and collective testimonies of their experiences of government service delivery. Through this process, differences between official records and peoples’ experiences began to surface. In this way, the power of the social audit to mobilise the community to achieve transparency and accountability began to emerge.

The first social audit in South Africa was conducted in April 2013 by the Social Justice Coalition (SJC) and Ndifuna Ukwazi (NU). The audit looked into the provision of communal chemical toilets in the large township of Khayelitsha in Cape Town. Since April 2013, the SJC has partnered with NU in conducting three more social audits in Khayelitsha. An audit of refuse removal and area cleaning was conducted in August 2013, and the janitorial service for communal flush toilets was audited in July 2014. In November of 2014 SJC and NU, along with a number of other South African civil society organisations, participated in a social audit learning exchange to India. From discussions during and after this trip, two important learnings emerged. The first was that social audits need to be more community owned and the second was that social audits need to address specific injustices rather than just systemic issues.

Based on this learning and further processes of reflection, SJC and NU implemented a revised approach with their fourth social audit in August 2015. This was the first in a series of planned localised audits which explore issues within individual sections of Khayelitsha in greater depth, rather than investigating a single issue across a number of sections. The SJC aims to develop greater community involvement through their localised audits. Equal Education, a South African membership-based community organisation, has recently begun conducting social audits. In February and March of 2015, they audited sanitation in 200 schools across the Gauteng province in partnership with other community organisations.

Social Audit – Point for Consideration

- Environmental impact resulting from the company's operations.
- Transparency in reporting any issues regarding the effect on the public or environment.
- Accounting and financial transparency.
- Community development and financial contributions.
- Charitable giving.
- Volunteer activity of employees.
- Energy use or impact on footprint.
- Work environment including safety, free of harassment, and equal opportunity.
- Worker pay and benefits.
- Non-discriminatory practices.
- Diversity.

Conducting Social Audit

PHASE 1 – Preparing and Planning - Social Audit

- Establish Legitimacy in the community
- Identify a focus
- Obtaining government documents
- Constitutes a core group of organizers
- Mobilise participants
- Engage other relevant stakeholder
- Decide on dates and organize logistics

PHASE 2 – Conducting Social Audit



Conclusion

Social Audit includes a public engagement where community can present their findings and experiences, and where government officials have an opportunity to respond. This process can promote government accountability and bring out justice for people whose rights have been violated.

Source:

- https://en.wikipedia.org/wiki/Social_audit
- <https://cfo.economictimes.indiatimes.com/news/social-audit-is-imperative-industry-should-gear-up/90938109#:~:text=In%20India%2C%20social%20audits%20originated,machinery%20to%20hear%20the%20people.>
- <https://www.fao.org/3/ad346e/ad346e09.html>
- [https://www.worldwidejournals.com/international-journal-of-scientific-research-\(IJSR\)/fileview.php?val=October_2012_1349177858_07f3d_06.pdf_06.pdf](https://www.worldwidejournals.com/international-journal-of-scientific-research-(IJSR)/fileview.php?val=October_2012_1349177858_07f3d_06.pdf_06.pdf)
