

Towards Auditing: The Social Auditing in India

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Abstract – The concept of audit has undergone vast changes and its scope has widened beyond recognition, various types of Audit has developed. Like Financial Audit, Cost Audit, Efficiency Audit, Performance Audit, tax Audit, Management Audit, E.D.P. Audit and last social Audit. Traditionally, the scope of audit has been concerned with the authentication of financial data contained in the Annual Reports of an enterprise. Now the scope of audit is fast expanding starting from the Financial Audit and traversing through the path of Cost Audit and Management Audit, it has now entered into a rather new field Audit, which tries to appraise the performance of business concern from the social angle. The resources put at the disposal of a business concern, in fact, belong to the society, and must be used for optimal social goods. The Societal Audit aims at examining how these resources have been used Social for the good of the society in general, and business in particular. It also deals with the value added generated and distributed by the business and industry. Briefly stated, social Audit is expected to fulfil the needs of the changing social awareness in the context of a developing economy like India.

Key Words: Financial Audit, Efficiency Audit, Cost Audit, Management Audit, Social Audit.

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INTRODUCTION

The corporate business has become an integral part of the functioning of any society. It is the recipient of the benefits and privileges of the State and Society in which it operates. The society therefore expects the corporate business to assume that the vast material resources like water, land and air could absorb the wastes of production and neutralize any potential harmful effects. Man assumed that the natural environment would always renew itself. It is abundantly clear now that this is not so. It is common knowledge that society is being threatened by pollution of land, sea and air. To an increasing degree, business has been creating conditions that have resulted in many social ills, though the same may not be by design or choice. With changing social and economic values and with increasing expectations of society from corporate business, the companies that adjust to the rational changes and help in pioneering such changes are likely to survive and flourish and those which oppose, block or restrict the changes

The concept of Social Audit is of recent origin. Writing on this subject was started in 1970. Right from 1970 thinking is going on to develop this concept in proper framework. In this paper an attempt has been made to develop the framework of Social Audit. For this purpose following aspects of Social Audit has been discussed.

- (1) In Search of what is Social Audit?
- (2) Objective determination problem,

- (3) Need for developing a proper format for Social Audit Report.
- (4) Managing the Social Audit.

IN THE SEARCH OF WHAT IS SOCIAL AUDIT

The existing literature on Social Audit is too scanty and it does not give us a clear cut answer to what is Social Audit. There are many terms which are used for social performances information. Such as Social Accounting, Socio-economic Accounting, Social Reporting and Social Audit. These terms are used interchangeably. So the first thing before us is to clearly distinguish between Social Accounting, Social Audit and Social Reporting. Seidler and Scidler (1975) define Social Accounting the modification and application, by accountants, of the Skills, techniques and discipline of conventional accounting, to the analysis and solution of problems of a social nature, Ralph. W. Estes (1973) views it as the measurement and reporting internal and external of information concerning the impact of an entity and its activities on society. The N.A.A. Committee has defined social accounting as "the identification, measurement, monitoring and reporting of the social and economic effects of an institution on society.

There is no consensus among professionals and academicians about the terminology to be used for social accounting. Linowes and Gambling have used the term societal accounting, Patricia and Johnson has used the term Corporate Social performance, Belkaouvi has called it socio- economic accounting, Sethi, Beesely has called it by Social Audit. Social

Audit is the Audit of the performances of the Business concern towards society. Social reporting is a rational assessment of and reporting on some meaningful definable domain of a business enterprise activities that have a social impact.

OBJECTIVE DETERMINATION PROBLEM

While reporting the social performance of a corporation, it is necessary that we should develop social indicators for reporting. Social Indicators may be Macro level, and at micro level, while developing social indicators at Macro level it should be kept in mind, what nation expect from a firm for the betterment of society. Secondly at Micro level, what is the expectation of the society from the firm. So what is necessary is to determine the objectives for Social Reporting and accordingly the reporting should be done.

NEED FOR DEVELOPING A PROPER FORMAT FOR SOCIAL AUDIT REPORT

There were practically no measurement methods till 1970, The interested companies adopted their own methods of measuring and reporting social performance:

- (1) Core coran Leininger (1970) suggested model which includes inputs and outputs of human and physical resources.
- (2) Abt Associates Inc (1971) model. Contains Social Income Statement and Social Balance Sheet.
- (3) Linowes (1972) suggested model known as 'Social Economic Operating Statement; which includes relation with people, relation with environment and net figure are reported within each section and a net total is also reported for the entity for the period.
- (4) Estes (1973) gave a model which is known as cost benefit statement which includes social cost and benefit.

Although various models and formats have been developed and suggested by different academicians, but all these models have some short-comings. Leininger model is very simple and does not give any information about economic performance. The Abts model is very complicated and it is very difficult to understand Linowes model does not give detail information about economic performances. Estes model gives a complete picture of social performances, but it may not suit to all the firms.

A. Environmental Concerns

I. Contributions

- (1) Installation of Pollution abatement equipment required by Environmental agencies.

- (2) Installation of Pollution equipment on a voluntary basis.
- (3) Reclamation of Land (mandatory or voluntary)
- (4) Conservation of Scare Resources.
- (5) Aesthetics.

II. Consumption

- (1) Estimate of Investment required for pollution abatement equipment,
- (2) Utilisation of other physical and social environment (if quantification is not possible, a narrative description).

B. Product Concern

I. Contributions

- (A)
 - (1) Improvement in design.
 - (2) Improvement in packaging
 - (3) Improvement in use of new material
- (B) Reduction of Pollution Resulting from the product:
 - (1) Changes in Product to make it recyclable.
 - (2) Reduction in pollutive effects of using product.
- (C) Resolution of consumer complaints.

II. Improvement Needed

- (1) Estimated cost to fully meet the safety standards.
- (2) Complaints or legal cases pending resulting from the lack of. product safety.

C. Human Resources

I. Contributions

- (1) Hiring of employees from -minority groups (number of employee from each group).
- (2) Training programme for employees:
 - (a) Training programme for all employees.
 - (b) Special programme for advancement of minorities.

- (3) Working Conditions:
- (a) Improvement in safety conditions.
 - (b) Other improvements in working environment.
- (4) Medical plan for employees.

- (5) Retirement plan for employees.

D. Community Investment

I. Contributions

- (1) Cash contribution to Educational Institutions
- (2) Cash contribution to Social Institutions
- (3) Cash contribution to Religious Institutions
- (4) Other than cash contribution (man hours).

After discussing the various models and formats for Social Audit Report, as suggested by different researches, it can be concluded that there is no foolproof format for social Audit Report. Research is going on to develop a suitable format for Social Audit Report. Information needs of different users are different. Unless we know their needs, we cannot develop a sound format, so there is a need to identify the needs of different users of financial information. Once these needs are identified, we can develop a better format for different user group.

MANAGING THE SOCIAL AUDIT

Though we have sorted out some thorny issues related to the Social Audit such as what is Social Audit?. What should be objective standard for social performance? What should be the format for disclosing Social Information? We have still the problem of managing the Social Audit. The issues that make up this problem are-Who is competent to conduct Social Audit? Who should order it? How frequently it should be ordered? Who should receive the report?

The first and for most question arises before us is that who should conduct the Social Audit. Some people are of the view that a chartered Accountant should do it. But we do not agree with this. The Chartered Accountant is doing Financial Audit. The nature of Social Audit is totally different from Financial Audit. So in our opinion Social Audit should be conducted by team of experts of Management professionals.

The Social Audit team must comprise a Chartered Accountant and operation research scientist an industrial Engineer and a social scientist. The Social scientists may include Economists, Psychologists and Sociologists, Judges and Social Workers. All the members of the expert team should be equipped with

special analytical skill and ability to render an impartial assessment of the social performance.

The second question is who should appoint this team. The Board of Directors should appoint such team of experts for Social Audit. Now-a- days, Board of Directors of any organisation is a balanced and proper representation of stakeholders. It includes the representatives of shareholders, financial institutions, employees, government, public etc. so the decision taken by the board of directors will represent the decision taken on behalf of shareholders.

The next question is that who should receive the Social Audit report? It is suggested that it should be made available to all stakeholders, like shareholders, investors, financial institutions, creditors, government and public at large. The next questions is regarding what should be the format of Social.

CONCLUSION

Audit Report. Whether it should be short or long. It is suggested that Social Audit report must be long enough to have an in-depth analysis of present social functioning and must suggest such changes which can easily be implemented. The last question is what should be the approach to Social Audit. First of all a detailed questionnaire is to be prepared consisting of four sections. The environmental concerns, product concerns, human resources, community investments. From the above discussions it can be concluded that:

- (1) Social Audit is still not properly defined.
- (2) Social Audit is a confused term with Social Accounting and Social Reporting.
- (3) Framework developed in this paper is not a final framework for Social Audit.
- (4) These are guidelines for developing such a constructive frame work for Social Audit.
- (5) Above discussions and points raised and suggested can help the researcher to do further research in the area of Social Audit.

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