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SOCIAL AUDITING AS PART OF CORPORATE GOVERNANCE AND HUMAN RIGHTS

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ABSTRACT:

Social Auditing is a procedure proposed or a method for social engagement, transparency, and communication of information leading to greater accountability of decision-makers, managers, and officials. Social Auditing may be one way to overcome the crisis of accomplishing social objectives relating to social welfare. It is a procedure that empowers an organization to demonstrate its social, financial, and environmental benefits and help to release duty in an appropriate manner. In this article, the researcher will analyze Social Auditing as a part of Corporate Governance and its effects on Human Rights.

1. INTRODUCTION

“Social Audit” is a method for estimating, understanding, and eventually improving an organization's social and moral execution. It is a process wherein the assets both money as well as non-budgetary, are utilized by the organizations for advancement activities and these are shared with individuals through a public platform. Social Audits begins with another desire to bring about a radical change in the sector of social welfare. The word Social “Social Auditing” comprises individuals, stakeholders, and the society which has a focal role in the Social Audit process.

The “Center for Good Governance”¹ in its Social Audit toolkit defines “Social Audit” as “an independent evaluation of the performance of an organization as it relates to the attainment of social goals. It is an instrument of social accountability of an organization”. The “World Bank” considers Social Audit as a process “that collects information on the resources of an organization.”² In India, few private enterprises, Civil Society Organisations (CSOs) and government institutions have initiated Social Audit.³ The researcher will analyze various aspects of Social Audits regarding

¹Mr V.K Parigi, *Social Audit: A toolkit*, CENTER OF GOOD GOVERNANCE, (2017) <https://cgg.gov.in/core/uploads/2017/07/Social-Audit-Toolkit-Final.pdf>.

²Nirbhay Lumde, *Social Audit in the Context of CSR*, INDIAN CSR NETWORK (Jan, 2015) <https://indiacsr.in/social-audit-in-the-context-of-csr/>.

³Mr V.K Parigi, *Social Audit: A toolkit*, CENTER OF GOOD GOVERNANCE, (2017) <https://cgg.gov.in/core/uploads/2017/07/Social-Audit-Toolkit-Final.pdf>.

Corporate Governance and Human Rights and will provide a road map for the structure and plan of Social Audits in India with relevant Case Study.

2. AN OVERVIEW OF HISTORY AND EVOLUTION OF SOCIAL AUDIT'S

The word “Audit” is derived from the Latin term, which means ‘to hear’. In older times rulers used to appoint people and give them the task as auditors to get feedback on the pursuit attempted by the lords in the realms. These auditors use to analyze the behavior of employees, tax regime, etc. and provide the feedback to the lord.

In mid-1970 in the United Kingdoms and Europe, the term Social Audit was developed to depict assessment on community and environment. In 1972, Charles Medawar evolved the concept of Social Audit which merely consist of examining costs and finance, the major concern is how resources are used for social objectives.

The idea of Social Audit advanced amongst corporate organizations as an instrument for reporting their commitments to the individuals and society and acquiring people's reviews to enhance their performance. Social Audits have also been adopted by certain NGOs as a method for comprehension to check there impact on society and whether they are meeting people's needs.

Social Audits emerged from the stage when these evaluations had no shared structure or method and no agreed criteria. In the old times, several community organizations began to undertake audits of their community to deal with Social Audits e.g.: Duston Social Audits, 1982. In 1984 the Co-operative Retail Society.⁴

3. NEED FOR SOCIAL AUDITING AS A PART OF CORPORATE GOVERNANCE AND HUMAN RIGHTS

⁴ *Ibid.*

The fundamental purpose behind the push for Social Audit is the dissimilarity between what individuals need and what individuals get. Every individual in society needs good governance, good family, culture, and social life. Corporate Governance refers to a system by which companies are directed and controlled.⁵

Social Audits in Corporate Governance has helped the organizations to maintain better standards for employees and its workers leading to better Human Rights standards in the country. Social Audits are needed in corporate organizations as it helps in covering the following areas:

(i) Observing and Feedback: Social Audits helps to screen the social and moral effects of organizations performance and provide feedback about the work, meeting the need of the individuals in society.

(ii) Accountability and Transparency: Social Audits guarantees accountability and straightforwardness in the working culture of corporate organizations and decrease the trust hole amongst individuals.

(iii) Ethical Issues: Social Audit offers a reason for fighting out what is correct and what is wrong as far as a given circumstance. Ethics is best comprehended when we refer to unethical conduct such as unfair trade practices, price discrimination, etc.

(iv) Equal Opportunity: Social Audits provide values of treatment in organizations and a reasonable equality framework in the corporate sector creating better human rights conditions in the society.

(v) Enhance Quality of Life at Work Place: Besides the request for protected safe and healthy human work conditions individuals are looking for more significance to their lives, with more growth, freedom, flexibility, and reward system which employees prefer are conditions in equilibrium to human rights conditions.

(vi) Ecological Protection: Growing water, air and natural contamination by various organizations and industries have promoted a need for “natural security” and environment protection at any expense.

⁵Mr V.K Parigi, *Social Audit: A toolkit*, CENTER OF GOOD GOVERNANCE, (2017) <https://cgg.gov.in/core/uploads/2017/07/Social-Audit-Toolkit-Final.pdf>.

4. SOCIAL AUDITING IN INDIAN CONTEXT

To assess different programs regarding Social Auditing a unique technique of accounting is required, in India, there are no standard arrangements for social auditing. In various nations uniquely, USA the business undertakings have been revealing different information about Social Responsibilities.

In India, the Tata Iron and Steel Company Ltd.(TISCO) released the Report of the Social Audit Committee in July 1980 which went the question whether the company had fulfilled the objective contained in clause 3(a) of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community. The report is largely a descriptive analysis of the performance of the company in the field of discharging its social responsibility. It does not attempt to give a socio-economic operating statement. It cannot be denied that it is a remarkable event in the case of social accounting and audit in our country. But, the report has now ceased to be published. Apart from this, in 1978 the Indian Textile Corporation brought out a statement of social accounting as well as social audit. The Cement Corporation of India has been publishing since 1979-80 social income statement and social balance sheet along with the annual report. In Kerala, the state government has decided to introduce Social Audit for local bodies. In this context, it can be mentioned that under Section 227 (4-A) of the Companies Act, the central govt. has enforced the Manufacturing and Other Companies (Auditor's Report) Order, 1988.⁶

5. PROCESS FOR CONDUCTING SOCIAL AUDITS

Social Audits subscribes to good governance standards of support, comprehensiveness, participation, and consensus. The organization can begin the preliminary steps during any time of a financial year.⁷ Social auditing is the process of assessing and reporting a business's performance in fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders. The social audit provides an objective approach for an organization to

⁶ Santosh Koner, "Social Audit and Accounting in India- An Overview", INTERNATIONAL JOURNAL OF MARKETING AND TECHNOLOGY, Vol.7 Issue 7 (2017).

⁷Mr V.K Parigi, *Social Audit: A toolkit*, CENTER OF GOOD GOVERNANCE, (2017) <https://cgg.gov.in/core/uploads/2017/07/Social-Audit-Toolkit-Final.pdf>.

demonstrate its commitment to improving strategic planning, including social accountability. There are many reasons companies choose to understand, report on, and improve their social responsibility performance. There are six steps for conducting social auditing in an organization:

(i) Preliminary Activities: Under this step, the organization needs to comprehend the key standards of Social Audit. Rundown basic beliefs of the projects and social goals the organization will be moving in the direction of the program it expects to contribute. The organization will likewise cause an outline of spending that will be required for Social Audit.

(ii) Characterizing Audit Boundaries and Identify Stakeholders: In this process, the key issue for Social Auditing should be expounded a mission statement, goal, issues, and exercises for social auditing are prepared. The consensus is created on audit boundaries by identifying stakeholders and formalizing commitments.⁸

(iii) Social Accounting and Book Keeping: Under this progression, a social bookkeeping plan and course of events are set up to screen social accounting exercises.

(iv) Preparing and Using Social Accounts: This progression includes planning accounts utilizing existing data, information gathered, and perspectives of stakeholders and identifying key issues for actions setting an objective for what's to come.

(v) Social Audits and Dissemination:⁹

- a) Under this stage, social accounts are presented to social auditors and the auditor verifies data used, assess the interpretation and comment on the quality of social accounting and reporting.
- b) Social Auditor verifies the data used, assess the interpretation and comment on the quality of social accounting and reporting.
- c) Social Accounts are revised in accordance with social auditor's recommendation.

⁸ Santosh Koner, "Social Audit and Accounting in India- An Overview", INTERNATIONAL JOURNAL OF MARKETING AND TECHNOLOGY, Vol.7 Issue 7, (2017).

⁹ *Supra* 6.

- d) Social Auditor has to collect information from the stakeholders regarding program implementation and benefits accrued.
- e) Disseminate Social Auditors consolidated report to the decision-making committee that includes stakeholders and the report is disseminated to the society.

(vi) Feedback and standardization of Social Audits: Feedbacks are gathered for turning of strategies, enactment, organizational working, and projects towards social objectives for the welfare and benefits of the society.

WHO CAN UTILIZE SOCIAL AUDITS? ¹⁰

Social Audits is explicitly for government divisions yet it can be utilized by private organizations just as a common society. However, the scope in terms of audit boundaries would be specific to that of a private organization an NGO, or community.

On account of private organizations, the emphasis is on balancing financial viability with its effect on the society and environment. On account of NGO, utilizing its policies and programs to maximize the effectiveness of their intervention program it could be utilized as a compelling advocacy tool.

6. SOCIAL AUDITING PRACTICE BY COMPANIES

INFOSYS: Infosys Limited is an Indian MNC that offers consulting, IT & BPO services headquartered in Bengaluru, Karnataka, India. Infosys is the second-biggest organization in India in the IT sector. In, 2018, its market capitalization was \$44.32 billion. It stands as the Second largest Indian company with the best Social Auditing and Corporate Social Responsibility activities; they include many activities such as -

Working together with Swami Vivekananda Integrated Rural Health Center (SVIRHC), the Foundation has donated enormously towards the elimination of leprosy. Consistently, SVIRHC

¹⁰Mr V.K Parigi, *Social Audit: A toolkit*, CENTER OF GOOD GOVERNANCE, (2017) <https://cgg.gov.in/core/uploads/2017/07/Social-Audit-Toolkit-Final.pdf>.

treated 3,747 patients, 11,083 tuberculosis patients, and coordinated free eye exercises for 16,869 patients. The Foundation has furthermore financed the BMCDDT Bone Marrow Registry, Bengaluru, to develop an overall bone marrow giver vault in India. ¹¹

The National Institute of Mental Health and Neuro Sciences (NIMHANS) is a creative establishment offering total thought organization for patients encountering mental and neurological issues. At each movement, Infosys has offered cash related help, planning for high bore and sensible social protection for patients who require it the most.

MAHINDRA AND MAHINDRA COMPANY: The Social Auditing and Corporate Social Responsibility has dependably been an essential area of the Mahindra Group's vision. Mahindra Group's endeavors in education, wellbeing, and environment have changed the lives of thousands of individuals everywhere throughout the world. Out of which 310,000 young ladies were educated, 99,000 individuals treated, 15 million trees planted, 5,000 toilets constructed by the Company. The Mahindra Group policies for Corporate Social Auditing has even helped there employee's and workers creating a better worker and employee relation. ¹²

These practices of CSR and Social Auditing have improved societal welfare helping the companies to be a vital part of the welfare of every individual. Leading to creating good governance and better Human Rights conditions in the country for the workers and other societal individuals.

7. ISSUES RELATING TO SOCIAL AUDITING

The overall feature of Social Auditing is not inspiring in the country whether it is public sector or private sector¹³, the regime of Social Auditing has certain loopholes due to which it has been partially effective. The issues relating to Social Auditing are:

¹¹ Nithesh R, “A Study of Social Audit on Top Indian and Global Companies” JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH, Vol 6 Issue 2 (2019).

¹² Nithesh R, “A Study of Social Audit on Top Indian and Global Companies” JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH, Vol 6 Issue 2 (2019).

¹³ Rupa Salui Karmakar “A Thematic Review of Social Audit in India”, INTERNATIONAL JOURNAL OF SOCIAL SCIENCE, (2017).

(i) Absence of stringent penalty: Flouting of Social Auditing standards and standards doesn't pull in any punishment or lawful continuing which makes Social Auditing a toothless exercise.

(ii) Absence of awareness: Lack of awareness among the individuals and their privileges on social Auditing.

(iii) Absence of a well-conceived information system: Certain Organizations rely on a hazy and incomplete system of referring to accounts and methods of reporting to track the progress of scheme due to which it becomes difficult for an auditor to take stock, speed up, slow down or apply corrective measures.

(iv) No incentive to participate: Lack of interest due to no personal incentives and awareness in individuals about the CSR and Social Auditing activities is one of the issues of it being less effective in its approach.

8. CONCLUSION

Social Audit in business means looking at an organization's endeavors in improving the general welfare of the entire community and society as a whole. In modern times, the objective of the business is to provide benefits to others and society expects businesses to share the fruits of progress and growth by taking care of the environment, pollution, quality of goods and services and sustainable development, etc. Corporate accountability/ auditing encompasses the systems in which a company establishes to develop policies, indicators, targets, and processes to manage the full range of its activities towards society.

Demand for increased corporate auditing today comes from all sectors and various types of social audit systems are being developed to take such accounts. Social Auditing being an important part of the corporate world helps maintain and enhance good governance and entail and improve the Human right condition in society.

As due to gradual urbanization and the global market competition promote socio-economic vulnerability along with environmental degradation more and more companies should come

forward to take part in Social Auditing as their business commitments to help the society at a large by implementing their welfare objectives.