

Social Accountability Standards (SAS) 8

Social Audit

OBJECT

08.01 The main objective of this draft standard is to provide guidance on the concept and possible procedures for initiating social audit in an NGO.

EXPLANATORY STATEMENT

08.02 Social Audit is one of the most important exercise which provides greater clarity on the work and activities of an NGO. Financial accounting and audits are limited to cash and legal transactions only. But charitable work may include much more important and broader aspects, which do not find a place in the financial or other formal statements.

08.03 Social audit is the willingness of an NGO to get itself evaluated by its stakeholders in terms of the efficiency of its processes, relevance of its work. Social audit also involves an initiative on the part of the management of a NGO to justify itself in a holistic way.

08.04 One more important aspect of social audit is its bottom up approach unlike financial statements. A social audit begins at the community or the activity level and it may extend to the system and processes right up to the board level. In other words, social audit is a process of verifying various activities, processes and systems from a social perspective. NGOs being trustees of public funds have a larger responsibility than the legally or technically appropriate utilisation or management of funds. Historically it has been noticed that many activities of NGOs which are appropriate and acceptable from financial or legal standards

but may not be desirable in terms of the opportunity lost or from the point of view of some other stakeholder. For instance

- A large corpus may be desirable from an angle of institutional sustainability but it may cause reduction in availability of funds for ongoing activities against which the other stakeholders may have a different perspective.
- An error of judgement by the management due to lack of participative decision-making at community level may raise serious question under social audit. For example, building a rehabilitation colony far away from the place of work of the beneficiaries may result in failure of the project.
- High infrastructure or administrative cost per beneficiary may not result in any financial discrepancy but socially it is not acceptable.
- The effective cost of delivery of services may be very high due to lack of clarity between categorisation of programme and administrative expenses. In such cases a social audit using different parameters could be useful. The parameter such as cost per beneficiary, disproportionate allocation of funds to budget heads where less important issues greater allocations. That is a stakeholder's perspective on prioritising of various expenses could be of much help.
- The field level work entails contributions from various stakeholders and the village level resources & assets are also mobilised. Only through a social audit such aspects of development work could be assessed and highlighted.

08.05 Therefore, a social audit is an overall value based participative exercise, which can be done right from the grassroots to the board level. The NGO should be willing to open all or any aspect of its functioning for a '*value for money/ efforts/resources analysis*' by a external set of persons including stakeholders. The external team should be empowered enough to make the NGO and its board accountable. The NGO is required to develop proper policies and methodology in this regard.

SOCIAL AUDIT PRINCIPLES

08.06 Social audit aspires to address the issue of holistic sustainability, relevance and effectiveness of the programmes, activities and systems of the NGO. The fundamental principles of social audit are as under :

- It is an exercise which is independent of the management of the NGOs. It should be initiated by the management, but conducted by a team of other stakeholders including external experts.
- The audit team should be independent and empowered enough to question and make the NGO accountable.
- The scope of social audit should be open and all inclusive, covering all aspects of the NGO.
- Social audit should be based on verifiable and comparable criteria.
- Social audit results should be shared with the wider section of stakeholder including communities.

SOCIAL AUDIT PROCESS

08.07 A social audit in an NGO can be conducted by constituting a team of stakeholders comprising an expert consultant and members from various interest groups of stakeholders.

08.08 Specific ToR and questionnaires should be prepared keeping in view the various stakeholders who will participate in the process.

08.09 For instance, if a specific project of an NGO is to be subjected to social audit, then it could require the following steps :

- The financial, governance and activity related information available with the NGO needs to be compiled in a verifiable and comparable frame work.
 - Suitable questionnaire and methodology should be prepared for getting inputs from stakeholders and as well as counter verification.
 - Documentation of perception and views of the actual beneficiaries in terms of the process and delivery.
 - Documentation of perception and views of experts in terms of relevance, effectiveness and opportunity losses of the resources and finances incurred.
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- Perception and views of the representatives of larger target community other than the beneficiaries.
- The opinion and explanations provided by the management against its own variance analysis that is the difference between the planned activities and the actual activities.
- The opinion and explanations provided by the management against the external views and opinions gathered.
- A score sheet of the performance of the NGO shall be prepared by the social audit team on the basis of the above processes.
- The management should respond with a position paper and way forward to the audit process.

CASE STUDIES

08.10 Some real life case studies which raise accountability issues and therefore the necessity of a social audit, have been discussed below. For confidentiality these examples are treated as illusory in nature :

Example-1 A shelter home built with an investment of 20 million rupees and a recurring cost of 1 million rupees ultimately manages to provide shelter to 7-8 beneficiaries. The reason for its failure is that it was built 60 kms. away from the area of operation of the NGO. In such cases the financial statements would not reflect any irregularity.

Example-2 The land and corpus of an NGO is in excess of 1000 million rupees which is 50 times the average annual budget. The NGO is closely held by friends and relatives of the CEO. The stakeholders are not aware of the title documents. Such issues get accumulated over a long period of time therefore do not find a reflection in any given periods audit report or evaluation report.

Example-3 An NGO engaged in rehabilitation programme transfers only 40% of the available fund to the project office account. Therefore, 60% of expenditures are incurred from the head quarters. But

the administrative expenditure technically are only 10% of the total expenses. In such circumstances a stakeholder based participation in distribution of expenses can only take place through an independent social audit.

Example-4 3 million rupees were spent in capacitating 10 village level accountants. The capacity building process to the same set of accountants continues with a recurring cost of another 0.5 million rupees. But the accountants even during the project period starve with a salary of 2 euro or Rs. 100/- a month.

Example-5 1.3 million rupees is spent on the travel of board members, but crucial field visits by programme staff could not be done for the want of Rs. 200/- or 4 euro per month.

Example-6 2 million rupees are spent on the aesthetics of a primary school with another 0.5 million recurring expenditure. The total number of students are not even 50, and most of them are children of the staff.

Example-7 Most of the blankets and relief materials which were shown as application of funds in the head quarters account remained unutilized at the project office godowns. The beneficiaries were unaware of any such allocation.

Example-8 Substantial funds in the revolving credit are transferred to a joint bank account between the representative of beneficiaries and the CEO. The amount is shown as fully utilized for the stated purposes. The funds revert back to the organisation after lying undisturbed for five years.

The above examples are an account of the activities of some of the popular NGOs. Each of the above case study raises the issue of empowerment and participation of the marginal stakeholders. The above case studies may not have happened had a transparent participation of stakeholders been in place both at planning and at social audit stages. To change such a scenario it is imperative that social audit is somehow provided its rightful place on the platform of accountability. The onus of bringing a strong culture of social audit lies not only on the management but also on the stronger stakeholders such as the donors.
