

## Social Accounting and audit

Finally I wish to turn to social accounting and audit. If Third System organisations claim to be operating for the common good then it is essential that we can see clearly what benefits have been delivered, reporting transparently on those and using the information to improve performance in the future – to both *prove* the value of the organisation and to *improve* future performance.

Social accounting is a process whereby an organisation monitors and evaluates its work, reports honestly on its achievements (and failings) and improves its performance through more informed planning and better management. Social accounting engages the stakeholders of an organisation, involving them in the process of assessment and recognising accountability to them.

Like any accounting system, to be effective social accounting must be customised to the needs of each organisation, starting from stated values and objectives. It is not a question of a one size tool fits all: social accounting is a framework which builds on existing reporting, compliance and quality standards, spotting the gaps to be filled if the social accounts are to be fully comprehensive.

The five stage social accounting process described in the panel is a step by step approach which seeks to make manageable what may seem at first sight to be a daunting task. It is founded on the six key principles which are generally recognised as underpinning social accounting (see the second panel).

### Stage One: Introducing Social Accounting and Audit

- What is it?
- Why do a social audit?
- Benefits & Snags
- What are the key principles?
- The language of social accounting: understanding the jargon
- What do we already do – towards a social audit?
- History and current practice in different sectors
- Do we want to do it?
- Managing the Social Audit
- The cost of the social audit

### Stage Two: The foundations

- Clarify the social Objectives and the Activities undertaken to achieve them
- State the Values that underpin the purpose and work of the organisation.
- Prepare a Stakeholder map of the organisation, and
- Identify the Key Stakeholders
- Determine the Scope of the social audit

### Stage Three: The nuts and bolts – Social Book-keeping

- Agree the indicators which will allow performance to be assessed
- Identify what existing records and data can be used
- Decide what new, additional data will be collected and how
- Agree how and when to consult which stakeholders, and about what
- Organise the resources needed to carry out the social book-keeping and the stakeholder consultation
- Produce a Social Accounting Plan and time-table
- Implement the Plan and monitor progress

### Stage Four: Preparing and Using the Social Accounts

- Draft the Social Accounts using existing information, the data collected and the views of the stakeholders
- Identify the key issues on which the organisation should act
- Review the Objectives and Activities, and the Values
- Set targets for the future
- Review the social accounting process and make necessary adjustments
- Plan dialogue and discussion with stakeholders
- Plan how to disseminate the social accounts

#### **Stage Five: The Social Audit**

- Appoint the members of the Social Audit Panel
- Present the social accounts to the Social Audit Panel
- The Panel arranges to verify a sample of the data used;
- Assesses the interpretations given in the accounts; and
- Comments on the quality of the social accounting and reporting
- The Social Accounts are revised in accordance with the Panel's recommendations, and
- The Social Audit Statement is issued.
- Publish (a summary of) the audited accounts to all stakeholders
- Continue with the next cycle of social accounting

Five points require emphasis.

First, without being clear about the values of the organisation and without knowing what the objectives are - and what you are doing to achieve them – it is impossible to develop appropriate indicators.

Second, it is essential to know who the stakeholders are: whom you affect and how and who can affect you. Social accounting is about exploring the effect your organisation is having on people and what they expect from you.

Third, social accounting must include accounting for environmental impact. No organisation can be socially responsible without being environmentally responsible – and vice versa. So, when we talk about 'social accounts' we should expect to see in them an account of the organisation's environmental policies, practices and impact.

Fourth, it is important to be clear that *social accounting* is about the process of recording, consulting, analysing and then reporting the findings. *Social audit* is the way in which the social accounts are verified. It is the social audit – the verification – which ensures that people may trust what they read in the social accounts.

Fifth, social accounts report both on what has been done: descriptive material backed up by facts and figures (quantitative data) and on what people think about what has been done: perceptions of impact and value (qualitative data). For social enterprises this mix of 'hard' and 'soft' information is especially important to getting across the message not only of what they have done but its perceived value.

#### **The principles of social accounting**

- *Multiperspective* – to ensure that the voices of all the key stakeholders are heard (and where they are not, to ensure that all omissions are satisfactorily explained).
- *Comprehensive* – to ensure that the social accounts report on all aspects of an organisation's work, rather than just on a selective sample. This requires clarity – and openness – about values, about the objectives and about what is actually done in order to achieve the objectives.
- *Regular* – to ensure that social accounts are prepared regularly (year on year or maybe biennially) so that social accounting becomes embedded within the culture and systems of the organisation, so contributing to:

- Management of performance
- The ability to report effectively on what has been done
- Accountability to stakeholders
- Creating recognised channels through which stakeholders are empowered to influence the organisation
- *Comparative* – to ensure that the organisation makes year on year comparisons of performance and relates the performance to appropriate benchmarks and other external standards; and also to allow other stakeholders to make comparisons (and therefore choices) between organisations.
- *Verification* – to ensure that the social accounts are verified by an independent auditor or panel.
- *Disclosure* – to ensure that the findings of the social accounts are reported to stakeholders and to the wider community in the interests of accountability and transparency and to develop dialogue with stakeholders about the issues raised.

The social economy sector was early in the field of developing practical and workable methodology for social accounting and social audit. In Scotland, Strathclyde Community Business recognised the need to understand, account for and report on the social benefits of the community businesses which were being established in the 1980s. SCB's thinking and experimentation led to what became known as 'the Scottish model' which, blended with the experience of the New Economics Foundation working with Traidcraft, has evolved into the five stage process outlined in the panel.

Developments in social accounting and audit are fast-moving within the social enterprise sector. No one can yet claim: 'This is how it should be done'. The experience becomes richer and more diverse all the time and a challenge for those involved is to ensure that lessons learned are lessons shared and to develop common standards that are relevant and appropriate.

The five stage process appears capable of adaptation by small as well as larger social enterprises and users comment on the value of the step by step approach. In the UK the process is now becoming well established. Group training and facilitation programmes have been run in Liverpool, in Scotland, in the south-west and in the north-east with new programmes being initiated month by month. Getting organisations to work together as a cluster works well. Not only is it cheaper, but sharing problems and learning together makes the whole process more attractive.

The cluster approach has been used in New Zealand by COMMACT Aotearoa where a growing programme of social accounting is developing within both the corporate and community sectors. In Australia, Jobs Australia has recently supported a series of training seminars for some of its members but it is the Maleny Credit Union in Queensland which has so far pioneered social accounting for community and social enterprises.

Where social enterprises engage with social accounting and audit it appears that the process absorbs other strategic planning and organisational review processes. These fuse together as one continuous exercise which allows the organisation to better manage itself, monitor its performance and its impact, report fully and so account to stakeholders. As one Liverpool organisation commented "we do it because it is what we do".

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references:

1. Social Audit and Accounting, Manual, Workbook and CD Rom; published by CBS Network and Merseyside Social Enterprise Network, 2002
2. Social Enterprise in Anytown by John Pearce; published by Calouste Gulbenkian Foundation, 2003