Some contemporary issues in Social Accounting and Audit

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I took the local train from my village into Edinburgh recently and was pleased to find that some new rolling stock has replaced the old style diesel carriages. I also noticed that the small but more luxurious section at one end of the train is now called "Business Class". A metaphor for our times it seemed to me: we are now divided into "business class" (who make the world work and need more comfortable seats) and the rest of us. And that of course reminds us of the origins of modern social auditing– seeking a means to ensure that companies, as they became bigger and less connected to their local communities, remained accountable to the people and places they affect. George Goyder explained as early as 1961: "[financial auditing] is a one-sided state of affairs and belongs to the days when companies were small and public accountability was secured….in an economy of big business….there is clearly as much need for a social audit as for a financial audit" [1]

Introductory background

My experience of social accounting and audit stretches back over some 15 years and has primarily been with the community-based, non-profit sector, developing a social accounting and audit process which is "do-able" – not too daunting, not too mysterious, not too academic and not too costly. Our latest Manual, which includes a cd-rom of various templates, sample consultation methods, case studies etc is just now being published and describes a practical five stage model process. [2]

The model has evolved through fairly extensive experience and practice over the past five years:

- In New Zealand there was a pilot programme run by COMMACT Aotearoa between 1997 and 1999 involving three clusters of, in total, 14 community-based organisations in the North Island, around Christchurch and around Dunedin in the South Island.

- In the city of Liverpool I have been facilitating a social audit initiative, sponsored by the city council since 1996. The new Manual is based on an accredited action training programme devised there and now being delivered by a local facilitation team. More than 25 local organisations have now engaged with social accounting, one now starting their fifth cycle.

- In Scotland, where I am based, we are currently working with four clusters of organisations, the cluster approach giving the opportunity for peer support and mutual learning as well as being a more cost-effective wayto deliver training and support.

- Also in Scotland we are currently working on an action research project across four European nations to examine how social capital contributes to the growth of the social economy in a locality and exploring how accounting for the usage and the creation of social capital may be incorporated into the social accounting process.

For this paper, I decided to reflect on our experience of social accounting and audit in the community sector and identify those issues which I believe are also relevant more generally to work in the corporate and public sectors.

Back to basics

First, however, I think we should remind ourselves of the *fundamental concept*.

Social accounting and audit is about understanding the impact of organisations on our society and on the environment.

Social auditing embraces, or certainly should embrace, environmental accounting. Indeed, originally we always talked of social/environmental/ cultural auditing which was “short-handed” for convenience to “social auditing”. Maybe in that short-hand of language we have to some extent lost sight of the inclusiveness that lies behind the concept.

The overarching context is of course sustainability: both sustainability of the organisation itself (the interrelation of the social, the environmental, the cultural and the financial) and sustainability of behaviour which contributes to a future for the people and the planet.

Second, I would like to reaffirm the *core principles,* which underpin the growing practice of social accounting and audit.

- *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 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 with 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, and
    - Providing recognised channels through which stakeholders are empowered to influence the organisation
- *Comparative* – to ensure that the organisation may make year on year comparisons of performance and relate performance to appropriate benchmarks and other external standards; and 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, a key question to which I shall return later.
- *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.

Third, before moving on, I would like to emphasise a further key idea of social accounting and audit: that the social accounting process belongs to the organisation who determines the scope of the accounts and prepares the accounts. In this way it empowers the organisation to report on its work and impacts from its perspective and from the perspective of all its stakeholders. You do not get someone to come in and do a social audit for you, you take responsibility for it yourself!

A key difference

A key difference has emerged between social accounting in the community sector and in the corporate which arguably already has and will continue to influence the way the process evolves differently in the sectors.

For the community sector (and also for truly ethical businesses) the social accounts are about organisation's core business – for the social and/or environmental purpose of the organisation is what it is about. Successful commercial performance is a means to achieving the purpose.

Thus in the community sector accounting must be truly triple bottom line – to know if and how well the social and environmental purposes have been achieved and if financial performance is sufficient to allow the organisation to continue doing its work and achieving its objectives.

I have observed that an increasing number of organisations include as one of their key "social" objectives 'To be financially viable or sustainable' thus tying together social, environmental and financial together in the social accounting process. (Maybe if we are to add in cultural objectives and impacts we should be talking about the quadruple bottom line?)

For the profit-making and profit-distributing organisation the core business remains whatever it does (manufacturing or service) and reporting on that core business is about growth, return on investment etc. Inevitably the social accounts become something of an "add-on"; sometimes an honest attempt to introduce ethical and social values into running the business, though ultimately they are subservient to the core business; sometimes in order to demonstrate corporate social responsibility and to ensure that they maintain a 'licence to operate' from society by 'managing stakeholder relations' effectively.

The London-based New Economics Foundation, pioneers of social accounting and audit, produced a report last year, [3], which warned against the dangers of social audits becoming no more than "whitewash" reports driven by the public relations departments. Indeed Ed Mayo, director of NEF, in a recent article in the Guardian newspaper, went so far as to describe corporate social responsibility as “with few exceptions, simply the icing on a rotten cake”.[4]

I do not wish in any way to infer that the community and NGO sector is perfect – it is not and indeed is often sadly lacking in respect of environmental, and sometimes employment, practices. But it is easier and more likely for community sector organisations to be explicit and up front about their values and their true objectives in a way that would inevitably be more problematic for the corporate sector. In the public sector it should be easier and more likely but the record so far shows that apart from in Scandinavia, there has been minimal engagement by the public sector in social accounting and audit.

A competent set of social accounts

Social Accounting thought has now become quite clear about what we would expect to find in a competent set of social accounts:

- A report on performance against the stated objectives (How well have we done what we said we would do?)
- An assessment of the impact on the community (Can this be measured? What do people think?)
- The views of stakeholders on our objectives and on our values (Are we doing the ‘right’ things? Are we “walking our talk”?)
- A report on environmental performance (Are we ‘living lightly’? and minimising resource consumption?)
- A report on our compliance with statutory and voluntary quality and procedural standards (Do we do what is expected of us, and more?)

A competent set of social accounts will include a blend of facts and figures (the quantitative data) and qualitative information (what the stakeholders think). Methods of collecting information and gathering views will vary and different organisations report different problems. Tradeaid here in New Zealand and the Maleny Credit Union in Queensland which I recently visited both reported – unusually in my experience – that they needed to install improved systems for collecting relevant facts and figures. The report on the New Zealand pilot produced by COMMACT Aotearoa however reported a tendency to “rush to survey”, sometimes even before objectives and values had been clarified!

Stakeholder consultation must be a genuine process of seeking views and engaging with them, much more that just “managing stakeholder relations”. One of the excitements of working in this field is seeking and learning new and imaginative (and cost-effective) ways of consulting stakeholders which go beyond the tried and tested methods of social science, customer and market research. In Scotland over the past year our social accountants have been using to good effect various participatory appraisal processes, first devised for work in developing countries.

The bottom line of what is done and how it is done to produce the social accounts must be for each organisation a balance between may be 'ideal' and what can realistically be done given the human resources and the finance available . Here of course is another significant difference between the corporate sector and the community/NGO sector, for the corporates can pump substantial amounts of money into the process. I have referred elsewhere [5] to a single private sector stakeholder consultation focus group costing GBP4000 – the sort of budget most community organisations would require to fund the complete process!

Any organisation engaging in social accounting must be clear that it will incur costs of time and money and must factor that into their plans. More than that, they should factor the social accounting process into budgets along with other budget lines and into work schedules and job descriptions.

Verification – the crucial stage

Verification is crucial to the social accounting and audit process because that is what confirms to all stakeholders and to the wider community that what they read is trustworthy, that the social accounts are a fair assessment and a balanced interpretation of the social accounting information which has been gathered. Verification must be done by people with no close or vested interest in the organisation.

Within the community sector we continue to use the process of a Social Audit Panel, chaired by someone with some experience, to examine the social accounts, sample check to source some of the data used and to go through with the organisation the accounts they have prepared, probing and challenging interpretations made, looking at the quality and competence of the methods used and ensuring there are no obvious omissions which are not explained or accounted for. The process may include additional, prior visits to the organisation by the Panel chair and even some corroborative telephone calls to selected stakeholders. A Social Audit Panel day is a tough day and it is usually a constructive day.

The extent of the process within the community sector is driven and constrained by the cost factor and by the availability of time. But we believe that the process is sufficiently rigorous and credible. They key is the Panel, a group of people whose opinion will be respected and whose name associated with the process and with signing off the accounts will lend credibility and ensure that the accounts are considered trustworthy.

I, and others in the community/NGO sector, are not comfortable with the apparent trend in the corporate sector to rely on a sole social auditor (and indeed in some cases to dispense entirely with genuine external verification). The panel approach keeps a wider, lay perspective involved and reduces dependence on a sole professional, in a field which is becoming, in my opinion, too rapidly professionalised. In his recent article Ed Mayo noted that: "The principle that reporting on what you should be indpendently verified has been, with the exception of early adopters, such as BT and the Co-op Bank, quietly sidelined".

The question of standards

This leads to the question of standards. In the community sector there is now recognition that there must be agreed minimum standards for ensuring the quality of the process, and standards revolve around three key areas.

- Agreement about the content of a competent set of social accounts: what **must** be there, what might be optional?
- Agreement about minimum standards for the processes used to gather information (especially the qualitative information) for the social accounts;
- Agreement about how the verification is conducted and what, at a minimum, must be done and how.

There is not yet agreement about these standards, apart from, within the community/NGO sector, recognition that they must be simple rather than complex, easily applied and readily understood.

In that regard, from a community sector perspective, the AA1000 framework of the Institute of Social and Ethical Accountability (ISEA) [6] is too complex, too academic, too costly and too directed at professionalisation. This has led to three parallel developments.

a) An understanding that there probably needs to be a series of stepped social audit levels linked to the quality components. Organisations preparing social accounts would commit themselves to going for particular level which thus determines what they will do and what they will not be required to do. The earlier Quality Scoring Framework of the New Economics Foundation was a useful first step in this regard.[7]
b) An understanding that the achievement of different levels would be reflected in the wording of the social audit statement issued. The development therefore of agreed standard wordings for social audit statements would be a major step forward.
c) A belief within the community sector that social audit institutions within the sector may be established to agree and safeguard quality standards. So, in the UK we have started the process of establishing the Social Audit Network, a first important task of which will be to develop an agreed approval process for registering people in the UK who are considered to be competent to chair Social Audit Panels and sign and issue a social audit statement.

   In Ireland, here in New Zealand and in Australia I understand there are similar developments with the foundation of social audit companies within and by the community/NGO sector.

Behind this lies a possible divergence within the social accounting field which grows from the key difference discussed earlier, with the corporate sector developing their own professionalised association and processes appropriate to their perception of their needs and intentions while the community/NGO sector develops its own, possibly different, processes. Alliances and collaborations between community-based social audit organisations and practitioners around the world can only benefit this process.

Transparency

In conclusion I have two further issues to touch upon. The first concerns transparency. It is a key principle that the social accounts are disclosed. This is usually achieved through the publication of a social performance report which inevitably is a summary of the social accounts. It is all too easy to see that published report as the main end product, a tendency which in my view is encouraged by the annual award scheme for social reports. More important by far than the glossy booklet is the process of accountability, ensuring openness in the way stakeholders are consulted and opening up varied two-way channels between the organisation and its stakeholders.

It is good – and enormously useful – to have an attractive published document, but the process is the important part, and the learning that comes from the process. Social Audit New Zealand's leaflet expresses the point especially well:

"Social auditing is not about reaching a destination determined by someone else. It is about the quality of the journey and the impact of that journey on others. It may also include building the road the organisation travels over."

Mandatory or voluntary?

The second issue concerns the tricky question of whether social accounting should be mandatory or whether it should remain a voluntary endeavour, and thus voluntarily regulated. I have come down in favour of it becoming mandatory for two main reasons.

First, I believe that all organisations should be required to produce social accounts in order to demonstrate to society the impact they are having on people and on the planet. That requirement to report should spell out what should be included in such accounts. It may of course be sensible that the scale and complexity of reporting will need differ according to size and capability of different organisations. But the principle is that all should account and report on their social and environmental (and cultural?) impacts – corporate (big and small), public sector, quangos and the community/NGO sector. I do not believe a system of voluntary, self-regulating reporting will provide society with the information it needs to moderate the behaviour of organisations. Ed Mayo again: "All of the significant improvements in business responsibility, from equal pay to trade union membership, started as voluntary innovations. But they had to graduate into regulation and law to make a real impact".

Second, I observe a growing interest by the public sector and others in social accounting as something the NGOs they support and fund should undertake as a means of they, the funders, understanding how effective they are. There is here a distinct danger of social accounting becoming compulsory ‘through the back door’ or, worse, being seen as something the community/NGO sector must do, but not necessarily other sectors.

The big game

It is a fast-moving field and it is exhilarating to be involved. No one can yet say “this is how it should be done”. There is much to learn and we are all learning all the time from the experience and innovation of others. But the really big game here is to ensure that society is given sound information about the benefits and the disbenefits delivered by different organisations and that surely is essential for sustainable policy making?

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Notes:
[1] G Goyder 1961, The Responsible Company, Blackwell.
[2] Social accounting and Audit for Community Organisations – Manual, Workbook & cd-rom, CBSN & SEN 2001 (available through Social Audit New Zealand).
[3] Corporate spin – the troubled teenage years of social reporting; New Economics Foundation; 2000
[4] Ed Mayo, Government must try some make-good repairs, in the Guardian newspaper, 27 August 2001.
[5] John Pearce, Social and ethical accounting in the community sector, in Accountability Quarterly, Spring 2001
[6] Accountability 1000 (AA1000) framework: standard, guidelines and professional qualification; Institute of Social and Ethical Accountability; 1999
[7] Quality Scoring Framework; New Economics Foundation;1998

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He has considerable experience of practical development work at local level, especially with participatory community planning. He has developed a methodology for social accounting and audit which permits community-based organisations to measure and report on their social and environmental impacts. His latest Social Audit Manual was published in November 2001.

Other publications include At the Heart of the Community Economy (1993) and Centres for Curiosity and Imagination: when is a museum not a museum? (1996). Presently he is researching a new book on the role and development of the social economy in the UK.

John is currently engaged in running a social audit programme in Scotland and in a transnational action-research project examining social capital and the role it plays in the formation of social enterprises and in strengthening the local social economy. He also manages the support for two community enterprise development initiatives in South India. He recently completed a four year social audit initiative in the City of Liverpool and has facilitated a programme in New Zealand for COMMACT Aotearoa.