Providing Best Value through the Social Audit

Liverpool 13 November 1999

The Liverpool Social Audit Initiative

The working definition, which we have been using for the Liverpool Social Audit Initiative is:

"Social Accounting and Audit is the process whereby an organisation can **account** for its social performance, **report** on and **improve** that performance. It assesses the social impact and ethical behaviour of an organisation in relation to its aims and those of its stakeholders."

The Initiative has been promoted and sponsored by the CBED Unit within the Department of Economic Development of the City Council and the first pilot phase ran from December 1996 through to the summer of 1998. Thirteen community-based organisations in the city took part in the Initiative and ten completed a set of Social Accounts for the financial year 1997/98. These accounts were audited in May/June 1998.

This Initiative was a first for Liverpool in two ways:

First, Liverpool became the first local authority in the UK to promote social accounting and audit; and
Second, the LETS Development Team, a small unit within the Council's Community Development section became the first part of British local (or national) government to submit itself to the rigour of social accounting.

The second pilot phase started in early 1999 and is running for the current financial year (1999/2000). 13 organisations are taking part in this second phase, five from the original group and eight new organisations of which two are Pathways Partnerships. Another three from the first phase are continuing to produce social accounts independently.

In that context I would like to pay especial tribute to SILPH (Supported Independent Living Project - Homes) in Croxteth and the SMART Trust in Speke Garston who have now produced audited social accounts for two consecutive years and are currently working on year three. The copies of the social audit reports are well worth studying and are good examples of how social accounting can be used productively by a community organisation.

For the second phase now in progress we have introduced a training course, Social Accounting and Auditing for Community Organisations which has been accredited through the Merseyside Open College Network. The social accountants of the current group of organisations, that is those people with responsibility for promoting, organising and writing the social accounts for their organisation, are registered for the training course which will give them 6 credits of A level equivalent when they have completed. Completion of the course will, of course, coincide with the completion, audit and publication of the social accounts for their organisation some time next summer.

The plan of the CBED team here in Liverpool is:

a. To make the Social Accounting and Audit course an annual programme so that the experience of and the skills for preparing social accounts can steadily be spread throughout the community sector in the city.
b. Simultaneously, the CBED team hopes to see social accounting and audit adopted as the preferred method through which CBED organisations can, and will, account for what they do and report on their work and demonstrate the social added-value that they are achieving.
c. The CBED team also intends to practise what it preaches and from next year will introduce social accounting and audit as the way in which they monitor their own performance and enter into a dialogue with their stakeholders.
d. In order to make the social audit process transparently credible in the city it is intended to build up a register of people recognised as competent to serve on the social audit panels which scrutinise the social accounts of community organisations, check the sources of data and their interpretation, and assess the validity of the social performance as reported in the social accounts.

Key principles of the Social Accounting Process

A number of key principles can now be identified from the social accounting and audit process as it is developing in Liverpool – and indeed elsewhere in this country and around the world, and not only within the community sector but also with ethical businesses and with private corporations. I wish to focus on six key principles.

1. *Involve all Key Stakeholders* – that is, those people who are affected by the organisation or who can affect it. That will include external stakeholders (such as customers, clients, beneficiaries, partners, funders, the local community) and internal stakeholders (staff, volunteers, trainees, members, directors).
2. *Report on all areas of work and impact* – the social accounts must report on all aspects of the organisation's work and impact, reporting the "bad" news as well as the "good", and sometimes discovering that it is having impacts of which it was not previously aware.
3. *Report both qualitative and quantitative data* – the social accounts must tell us how much, how many, how often etc.- hard facts and figures but they must report also the views and perceptions of the people affected (and of those who affect us), allowing us to understand the qualitative impact of our work and behaviour.
4. *Rigorous audit and verification* – the social accounts must be subjected to a proper process of scrutiny and verification to assess if they are a

true record and thus make them credible. In Liverpool we believe we have made considerable progress in developing such a process which at the same time is a constructive one for the organisations.

5. *Regular social accounts and audit* –the social accounting process must become embedded into the culture and the procedures of the organisation and be produced on a regular basis. Only in this way will they be useful for the organisation to monitor and steer its work and for others to judge just how useful and successful the work is, establishing the social added-value not just once-off but on a year to year basis. Producing audited social accounts is a big step towards the recognition of some form of "social balance sheet", which might become the accepted practice for organisations operating in the social economy.
6. *Publish the findings* – social accounting and audit is about being transparent, about accounting and reporting to our stakeholders. Therefore it is essential that the findings are made available to stakeholders as part of an ongoing process of dialogue and that they (or at least a summary) are published so that others can see. In Liverpool there remains work to be done in arranging for effective publication.

A pioneering development

In our "Social Audit Statement" used to "sign off" social accounts in Liverpool we state: "Social accounting and audit is a relatively new concept and there is no generally accepted code of social and accounting and audit practice". It is nonetheless possible to draw some conclusions from the experience so far which are beginning to evolve together into a "generally accepted code". Liverpool is very much pioneering in this regard.

Verification, the actual audit, plays a key role. In order to be credible it must be seen to be rigorous, and processes must be developed which, if followed, can give a common format and, therefore, standard. The wording of the Liverpool Social Audit Statement goes on to say that the process we are following gives the audit panel sufficient information on which to base an opinion and that:

"We are satisfied…..the statement of Social Accounts is free from material mis-statement and presents a fair and balanced view of the performance as measured against its stated objectives and the views of the stakeholders who were consulted".

If properly done and credibly audited then the social and accounting and audit process could be accepted as sufficient for all stakeholders. It is a complete report which can give all stakeholders sufficient information on which to make their own judgements about benefits achieved and value added (or not!), whether as client, beneficiary, funder, employee or whatever.

That implies, in particular, that funding stakeholders should no longer demand separate reports on the slice of work which they finance, but recognise their position as one group of stakeholders amongst many. Of course, the social accounts must give them what they need, but it will give them much more and permit them to see a more rounded picture of the organisation's work and understand the different perspectives about what is useful, important and effective.

It is essential that social accounting becomes embedded into the culture of community organisations (and of course others!) such that it is something they do not just to be able to report to others but also because it gives them the information they need to improve their performance and manage themselves. It must be taken seriously and adequate resources allocated to the work; the job of social accountant cannot just be tacked onto an existing job specification. Time (and money) will be required and a proper commitment throughout the organisation. In this regard one might hope that funders of the community sector will not only come to recognise and value social accounting and audit but also encourage the inclusion of a social accounting line in budgets for funding applications.

Social accounting is not just for the community sector. It could become the way in which we expect all organisations and institutions to account for themselves. It must not be seen as the latest monitoring and evaluation tool to be imposed by Councils and others on the organisations they support, but as a process which is equally valid for all – being able to better understand the true impact of what we do and engage stakeholders in discussing what we do, why and how. In this regard the commitment of Liverpool's CBED Unit to practice what it preaches next year is very much to be applauded.

I believe we should also understand, when considering the wider context of social accounting and audit, that there is a fundamental distinction to be drawn in the way it is practised and will develop between those organisations which start with a clear social and ethical purpose (such as the community sector, public service bodies and certain ethical businesses) and those private and other corporations, the primary purpose of which is the generation of profit and increased share-holder value, which can only be measured in £s. In the case of the former they wish to demonstrate their social impact and be transparent; in the case of the latter they wish to "manage their stakeholder relations" in order to maintain their "licence to operate".

Liverpool is at the forefront of these developments in the community sector with hard examples of good practice to show. We hope that the recently published report will be the start of sharing that experience with others and we look forward to seeing social accounting and audit become as established a process as the annual financial audit.

John Pearce