Auditing for social aspects

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7 Auditing for Social Aspects

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Introduction

This chapter provides an overview of the main developments within the social audit movement. It is difficult to provide an overarching definition of the term ‘social audit’, because the nature and purpose of social audit varies across organisations, industries and jurisdictions. Whilst social audit has developed to represent an array of activities and practices, the overall motivation for conducting social audits remains consistent with the ideas put forward when the concept was initially conceived. The origins of the movement can be traced back to 1950s and the pioneering work of social philosopher and reformer George Goyder. Indeed, it is Goyder who is often attributed as being the first person to use the term ‘social audit’. Goyder’s views grew out of the perceived limitations of conventional financial auditing practices and principles. Financial audit, which is an independent assessment of an organisation’s financial reports to ensure that they are accurate, complete and have been prepared in line with the relevant accounting standards, was seen to not only overlook the social in favour of profitability, but also reduce the social to the economic (Geddes, 1992). Goyder believed that 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. (Goyder, 1961, cited in Zadek et al., 1997:17)

As an early advocate of social responsibility, Goyder believed that stakeholders in local communities and wider society should demand greater accountability from organisations regarding their social, environmental and ethical impact. Social audit was put forward as a means of delivering such accountability to
stakeholders. According to Goyder, if organisations are not willing to take control over their own social and environmental accountability, then society at large must take matters into its own hands. Social audit, therefore, began as an exercise at the level of civil society, carried out by parties external to the organisation being audited. This is the first of three main types of social audit covered in this chapter: the external social audit. The chapter highlights the development of external social auditing from its origins, concern for issues relating to labour and the workforce before turning attention to the development of consumer audits.

After considering external social audits, attention is turned to second party audits, with a principal focus on supply chain audits. Supply chain audits are driven by external stakeholder pressure and corporate scandals, and consist of organisations carrying out audits of their suppliers against internal codes of conduct or external standards, to ensure that the safety and rights of workers are protected. This section focuses on supply chain audits, including how they are conducted, who conducts them and why they are necessary. It finishes by discussing the effectiveness and impact of supply chain audits.

Finally, the chapter discusses the self-generated social audit. This is where organisations conduct an evaluation of their own social, ethical and environmental performance and produce their own social audit reports. The section begins by discussing the pioneering work of Traidcraft plc and New Economics Foundation, which provided the catalyst for the development of self-generated social audit activity, particularly for organisations operating in the public and third sectors, or those whose main objectives were social in nature. The nature and scope of self-generated social audit are discussed, followed by how the data used in self-generated social audits is collected, how it is reported and who is responsible for providing assurance in relation to self-generated social audits.

**Early developments in social audit**

Despite the early work of Goyder, the theory and practice of social audit did not develop in any significant fashion until the 1970s and the pioneering work of Charles Medawar (1976). A central tenet of Medawar’s work is the idea that those in positions of power, who are charged with making decisions on behalf of, and in the interests of, stakeholders should be held accountable for those decisions (Gray et al., 2014). Further to this, Medawar was one of the leading figures in the formation of the influential organisation Social Audit Ltd, a group who led the way in social audit during the 1970s. Social Audit Ltd was important to the development of social audit, as they were one of the first organisations to publish social audit reports. Perhaps the most prominent example of their work is the report produced on the company Avon Rubber. This represented the first detailed social audit report into a single organisational unit. Social Audit Ltd went on to produce several other social audit reports focusing on numerous companies within the corporate sector. The scope of these reports was wide-ranging...
and covered several social issues including labour relations, health and safety, issues relating to products and services, pollution, waste disposal and energy. The work of Social Audit Ltd paved the way for future social audit organisations and initiatives whereby social auditing was conducted by stakeholders external to the organisation being audited.

Early social audit activity was developed further in the work of Counter Information Services (CIS), particularly in relation to the interests of the workforce (Gray et al., 2014). Throughout the 1970s and 1980s CIS issued several Anti-Reports, that concentrated on those industries and organisations with the largest workforces and included organisations such as Ford (formerly a public-sector industry), Unilever and the NHS. Whilst covering a range of social issues, the CIS reports focused mainly on labour relations, working conditions, redundancy programmes and strikes. The reports were designed to scrutinise the wealth of UK’s largest companies, focusing on contrasting profits with wages, work conditions and environmental costs, as well as disclosing the privatisation of the public sector. The reports produced by CIS represented the first steps in the narrowing of focus of social audit reports, with reports produced that looked specifically at issues relating to the workforce, plant closures and the interests of consumers. These are discussed in more detail in the following sections.

The work of Social Audit Ltd and CIS has influenced external social audit, which has spread far beyond the United Kingdom. Indeed, reporting of this nature continues today with external social reports that have a worldwide reach such as those produced by Greenpeace (2005a, 2005b), Friends of the Earth (2003) and other social and environmental organisations. Some of these reports focus on individual organisations (e.g. United National Development Programme, 2010), whilst some have a more societal focus (e.g. Christian Aid, 2003, 2005). The most prominent developments are discussed in the following sections of this chapter.

**Government, local authority and NGO audits**

Building on the CIS reports’ concern with issues relating to the workforce, social audits continued to develop during the 1980s with the work of trade unions and local authorities (Gray et al., 2014). These social audits arose due to the rapidly changing industrial environment in the United Kingdom during the early 1980s. Driven by de-industrialisation and rising unemployment, several local authorities began to conduct social audits looking at the impact of plant closures on local communities. Specifically, these social audits considered the impact that such closures would have on employment levels as well as the wider economic impact on local businesses and other stakeholders. Further to this, macro-economic assessments of the public cost of closures were also undertaken. Thus, the reports produced by local authorities during this period had an overarching social and financial focus. This continued with social audits of the impact of the steel industry in the county of Cleveland (1983) and the coal industry in Barnsley Metropolitan Council (1984). In the late 1980s, the social auditing activities of
Local authorities expanded away from focusing on the financial impact of single plant closures towards considering a wider range of social issues evidenced by the wide ranging social audits conducted by Newcastle City Council (1985) and Sheffield City Council (1985). Social audit relating to local authority activity then experienced a hiatus until recently when authorities such as Salford City Council (2016) proposed the embedding of social responsibility and social value into local government activity (Gray et al., 2014).

Outside of the United Kingdom, stakeholders external to governments and NGOs have conducted social audit activities to monitor and assess the performance of organisations. The focus of these audits has often been organisations that are operating in several developing countries, including Bangladesh, India (e.g. Centre for Good Governance, 2005) and Pakistan (Khlaid et al., 2010) as well as several countries on the African continent (e.g. WEMA, 2011). Like the early work conducted by Social Audit Ltd, this type of social audit focused on holding to account those organisations that purport to act in the interests of stakeholders within local communities. For example, social audit has been used as a tool to assess and measure non-financial activities through the monitoring of internal and external consequences of specific government schemes or NGO activity. This type of social audit attempts to evaluate the achievement of the social goals of the government or local authority from the point of view of a wide variety of stakeholders within communities. These social audits exist to counter public audits and parliamentary reviews, which are considered to not go far enough in considering the wider impact and performance of public agencies.

Consumer audits

Protecting the rights of consumers has been a central concern of the social audit movement since its inception (Gray et al., 2014). One influential organisation formed in 1957 was the Consumers’ Association, who produced the magazine *Which?*, with the primary aim of countering the power of organisations in the interests of the everyday consumer. Since its inception, the Consumers’ Association has grown to become the largest consumer body in the United Kingdom. In addition to the publication of the magazine, the organisation has launched numerous campaigns in the interest of consumers, with many of these leading to positive changes in law and behaviour. The association remains active today, with an extensive online presence. In addition to *Which?*, journals such as *New Consumer* and *Ethical Consumer* were also prominent during the 1980s and continued to drive a consumer-focused movement in social audit that still remains today. The journals were short-lived, however, and the Ethical Consumer organisation has turned attention to rating and scoring companies based on their ethical performance. Through their Ethiscore metrics, Ethical Consumer gathers a wealth of information regarding the performance of companies and ranks the organisations based on a range of criteria.
Along similar lines, the Ethical Company Organisation, founded by William Sankey, remains active in the consumer-focused social audit. The Organisation produces external reports that do not focus on one specific organisation but instead evaluate over 30,000 companies, to produce the Ethical Company Index, which gives each company and brand an independent score. These ethical rankings are subsequently used to produce reports, such as The Good Shopping Guide and The Good Nutrition Guide that can be used by consumers to assess the ethical performance of organisations before making their purchasing choices. Additionally, The Good Shopping Guide is designed to encourage poorly performing companies to improve their ethical performance, whilst rewarding those companies with a high level of ethical standard with a higher score.

On a more global scale, Consumers International is an organisation that was founded in 1960 with the aim to fight for a fair and safe future for all consumers within the global marketplace in the face of increasing globalisation. Consumers International currently has over 240 member organisations from 120 countries, made up largely of local consumer groups and consumer government agencies. Like the organisations previously discussed, Consumers International publish numerous reports on a wide range of issues including, but not limited to, ethical trade, health and nutrition, competition and climate change.

The activities of the above enterprises represent the broadest scope of social audit. These organisations seek to gather data from as wide a range of companies and brands as possible to protect consumers and encourage organisations to be more ethically responsible. In reaction to the initial calls for civil society to demand greater accountability from organisations with respect to their social responsibilities, the activities of social audit have developed as being broad in nature and scope. Early developments in social audit were driven by stakeholders external to organisations. Because of pressure from stakeholders, organisations began to become increasingly aware of their social, ethical and environmental responsibilities, resulting in social audit activities moving from solely being the remit of external stakeholders towards organisations beginning to take responsibility for social audit themselves. This is discussed in more detail in the following section, where the notion of supply chain audits is introduced.

Supply chain audit

In a similar vein to the early developments in social audits, the increase in the use of supply chain social audit has been driven by pressure from stakeholders external to organisations, including many voices from the public and third sectors. Workers’ rights within supply chains have arisen as an important issue because of increasing globalisation during the 1980s. During this period several organisations began to move their operations to countries where wages paid to workers were lower and the social, ethical and environmental legislative environment was weaker (Rahim and Idowu, 2015). Shortly after this occurred, NGOs
and journalists began to expose child and ‘sweatshop’ labour and sub-standard working practices in overseas production sites (Pruett, 2005). This resulted in calls for greater transparency and accountability within global supply chain management, culminating in the introduction of social audit practices that sought to identify, correct and solve environmental and social problems in supply chains.

Supply chain issues gained additional prominence in the mid-1990s after several high-profile companies were further criticised for substandard working conditions in their supply chains. Many these claims originated from countries in Asia including Bangladesh, Cambodia, China, India and Pakistan (Locke and Romis, 2012). For example, the study by Locke and Romis (2012) highlights how, during the 1990s, Nike was criticised for sourcing its products from countries where low wages, human rights issues and poor working conditions were prominent. In response to such criticisms, several large private sector organisations, including Nike, Gap and Levi Strauss, were pressurised by third sector organisations to adopt codes of conduct designed to ensure adequate working hours, wages and working conditions in the supply chain.

The garment and footwear industry began conducting social audits for organisations to monitor performance against their own standards and codes of conduct within their supply chains. Outside of garments and footwear, non-specialise retailers such as supermarkets and department stores have developed less stringent codes of conduct, and they have managed to avoid scrutiny, feeling less pressure to behave in a responsible way towards the workers employed in their supply chain (Pruett, 2005).

Supply chain audits consist of organisations evaluating the working conditions and practices of factories and production sites within their own supply chains. Overall, a supply chain social audit should aim to assess and identify violations of workers’ rights within production facilities, to assess and evaluate the performance of suppliers in relation to social standards. Supply chain audits should also encourage improvements at the workplace in line with the codes of conduct that have been developed by organisations, or in relation to external standards.

**Codes of conduct and external standards**

As stated above, many organisations developed internal codes of conduct that were designed to protect the rights of workers within supply chains. Whilst the development of codes of conduct represented a positive move from organisations, in most instances these codes of conduct have been developed in an ad hoc manner by a range of different stakeholders. This has resulted in questions being raised about the consistency and quality of codes of conduct applied to global suppliers (Jenkins, 2001; O’Rourke, 2003). These issues stem from codes being created for different purposes and from different viewpoints. To overcome this issue, several global standards have been created. The most prominent of these is the SA8000 standard that was established by Social Accountability International.
in 1997 as a multi-stakeholder initiative. It is a voluntary standard that can be used as third-party verification. The standard sets out the requirements that are to be met by organisations. This includes the establishment or improvement of workers’ rights, better workplace conditions and a more effective management system. The standard has since evolved into a framework that is designed to help organisations demonstrate their dedication to the fair treatment of workers across industries and in any country, and covers nine main areas: child labour, forced or compulsory labour, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management systems (Social Accountability Internal, 2014).

In addition to the SA8000 standard, the Ethical Trading Initiative (ETI) was established in 1998 with the objective of improving the lives of individuals working within global supply chains. This initiative was designed to ensure that all employers of labour in the supply chain aim to improve the working conditions and lives of the individuals responsible for creating the products that the organisation sells. The ‘base code’ that underpins the ETI is similar in nature to the nine main areas of the SA8000, with the basic principles being that: employment is freely chosen, freedom of association and the right to collective bargaining are respected, working conditions are safe and hygienic, child labour shall not be used, living wages are paid, working hours are not excessive, no discrimination is practised, regular employment is provided and no harsh or inhumane treatment is allowed (Ethical Trading Initiative, 2014). As supply chain audit has developed further, a range of other standards covering several different areas and industries have been created such as the Business Social Compliance Initiative (BSCI), Worldwide Responsible Accredited Production (WRAP), and the Sedex Members Ethical Trade Audit (SMETA) audit. An important aspect of supply chain audit is the enforcement and assessment of compliance. The parties that are charged with conducting social audits of supply chains are discussed in more detail in the following section.

Who conducts supply chain audits?

For supply chain social audits to be most effective, verification of suppliers should be carried out by an independent party who is external to the organisations present in the supply chain. This, however, is not always the case in practice. The reality of the situation is that, broadly speaking, there are two main types of social auditor: the internal social auditor and the external social auditor. As the name suggests, internal social auditors are employed by the organisation who have conducted the activities that are to be audited. The social auditors being employed by the organisation means that they are less likely to be objective and more likely to put the interests of their employers ahead of labour standards and the interests of other stakeholders. External social auditors are more independent than internal social auditors, but they often work for commercial firms whose business models may conflict with delivering a credible social audit as there is a
tendency to want to please the clients and suppliers who are paying for their services. Despite these issues, external auditors are preferable to internal auditors.

The desire for independent social auditors has resulted in the creation of an industry of social auditors who are present themselves as self-aligned experts in supply chain audit (Pruett, 2005). There are several types of organisation that are involved in conducting supply chain social audits. These include the global financial auditing firms, and specialised for-profit and not-for-profit social audit organisations. Commercial audit firms took an interest in conducting social audits, particularly during the 1990s. Although making up a small aspect of their business activities, these organisations offer increased resources and expertise. Commercial auditing firms, however, have not been immune from scandal and criticism. To take a specific recent example, the Ernst and Young audit of a Nike supplier in Vietnam illustrates the issues surrounding the independence of auditors. This audit has been criticised because of inconsistency and bias in key areas such as wages, overtime, and health and safety conditions (O’Rourke, 1997). Thus, even where an independent external party is engaged to undertake supply chain audits, it is no guarantee of effectiveness.

For social auditors assessing supply chains, there are three primary means of collecting data when conducting supply chain social audits. The first of these is to conduct interviews with workers, management, local unions and NGOs. When carrying out interviews, it is important that social auditors speak directly to workers about the conditions that they work in, without management present, for workers to feel comfortable enough to speak freely without fear of repercussions. Next, it is common for organisations and social auditors to complement the use of interviews with techniques that are familiar to a financial audit, such as observation and inspection of relevant documentation. In this instance, auditors would conduct a document review of numerous aspects of the suppliers’ business including, but not limited to, wages, hours, bonuses and personnel management. Finally, organisations and social auditors may also conduct a site inspection that aims to reveal health and safety problems and information about management-worker relations. The impact and effectiveness of social audit are discussed in more detail in the following section.

The impact of supply chain audits

Despite the development detailed above, supply chain social audits have been criticised for being insufficient. They have been criticised for failing to detect important breaches of compliance with labour standards and codes of conduct (e.g. McDougall, 2008; Bunting, 2011; Wilshaw, 2011; Rustin 2014). Indeed, social audit has failed to be effective in several famous cases, including the admission in Nike’s 2005 corporate responsibility report which disclosed collusion with its supplier in relation to the falsification of information by Chinese factories throughout the social audit process, including the coaching of workers by management in how to respond to social audit interviews (Nike, 2005). More than
problems with detection, however, supply chain audits have also been criticised for rarely leading to improved working conditions and better workers’ rights. It has previously been found that the effectiveness of social audit is limited, and social audits cannot produce change by themselves (Pruett, 2005). For the outcomes of social audit to be meaningful, some sort of follow up mechanism is required.

Social auditors often have limited powers to investigate as they can only verify the information that is presented to them. This has been problematic in a range of social audits, particularly with respect to audits of supply chains, where the regularity and pre-existing knowledge of upcoming audits allow suppliers to remove harmful documentation, remove illegal workers and temporarily improve working conditions. Overall, the practices of social auditors currently suffer from being fragmented and variable in nature. Inconsistency in the quality of social audits has led to range of criticisms of social auditors, including variation in the issues being considered to be important, the wide variations in methodology that is employed to collect information, the length of time spent conducting the audit, the level of skill and experience of the social auditors, and the methods of reporting the information that has been collected (Jenkins, 2001; O’Rourke, 2003).

Self-generated social audit

The final type of social audit discussed in this chapter are first-party social audits, which are most prominent in the public and third sectors. In recognition of the increased accountability demands from stakeholders regarding the social activities of organisations, many organisations began to produce self-generated social audit reports. One of the earliest and most prominent examples of self-generated social audit is the work conducted by Traidcraft plc, a fair-trade retail and wholesale organisation based in the UK, in conjunction with the New Economics Foundation in the early 1990s. This marked the first attempt by community organisations to attempt to fully understand their impact on society and to evaluate and report whether they were catering for the needs of all their stakeholders.

Not only did Traidcraft plc develop a single set of social accounts for the first time, but they also published documentation on the thought process behind the publication, which influenced further developments in this area. This approach saw the first involvement of both internal and external parties in social auditing and was the beginning of an approach that underpins this type of social audit today. Because of this pioneering work, a social audit methodology for use by organisations was developed and refined, eventually becoming a model of good practice that future developments would build upon. One of the main developments to emerge was the practice of conducting a regular, year-end social audit using independent financial auditors in much the same vein as the financial audit.
Following the work done by Traidcraft plc and the New Economics Foundation, developments in social audit continued throughout the 1990s but continued to lack coherence, with a diverse range of groups developing across the United Kingdom. In Scotland, the Strathclyde Community Business Ltd (SCB) built on this work in the 1980s, where they recognised the need to understand, account for and report on the social benefits of the community businesses, to produce Social Auditing for Small Organisations: The Workbook (Pearce et al., 1996). This workbook built on the New Economics Foundation’s work with Traidcraft plc, and resulted in the creation of the ‘Scottish model’ of social auditing, which has influenced other social audit initiatives such as the one launched by the CBED Unit (Community-based Economic Development) of Liverpool City Council which ran until 2004 with over 200 people completing the Open College Network approved course.

A similar development took place in England, where a social audit model began to be developed by the Industrial Common Ownership Movement (ICOM) through its Beechwood College near Leeds. The ‘Beechwood model’ was primarily concerned with worker co-operatives. This model was first used in the early 1980s and was further developed by the Social Enterprise Partnership into the Social Audit Toolkit (Social Enterprise Partnership, 2000) and used within the community sector, especially in the context of several transnational European programmes.

Building on the above, the New Economics Foundation itself ran a pilot social audit programme in association with the Association of Chief Officers of Voluntary Organisations, for 13 voluntary organisations throughout the UK, titled Social Auditing for Voluntary Organisations (SAVO), between 1998 and 2000. Around the same time, development of social audit was continuing in Scotland as the Community Business Scotland Network (CBSN) launched a social audit programme in 2000 with two sets of community organisations undertaking training and preparing social audits.

Perhaps the most significant recent development in social audit in the United Kingdom occurred in 2000 when the Social Audit Network (SAN) was launched at a symposium held in Edinburgh. Starting out as an email network, SAN now manages a register of approved social auditors, runs training courses and publishes a directory of social accounts. SAN were one of the first organisations to produce guidance to parties wishing to carry out social auditing in their Social Accounting and Audit Manual. Despite this, challenges to conducting social audit remained and after consultation with stakeholders, SAN published Prove, Improve, Account: New Guide to Social Accounting and Audit (Social Audit Network 2012: 3), which included “reference to other frameworks and tools; placed more emphasis on outcomes (as well as outputs); revised the reporting requirements to make it more accessible to smaller organisations; and revised the audit process”. This represented one of the first attempts to bring a level of coherence and professionalisation to the practice of conducting social audit.
Further afield, there have been several similar social audit developments. Social audit has been a feature of a growing number of EU funded transnational programmes that have been based on both the Scottish and the Beechwood models. The Scottish model has also been used as the basis for developing several social audit initiatives across the world including, for example, programmes run by COMMACET Aotearoa community organisations in New Zealand. Community organisations in India, Nepal, the Philippines, South Africa and Canada are amongst the many others who have experimented with appropriate forms of social accounting and audit to suit their needs. In India, for example, social auditing was formally introduced into law in the 2005 Mahatma Gandhi National Rural Employment Guarantee Act (Rahim and Idowu, 2015). Because of these developments, self-generated social audit has become an essential aspect of the activities of community and voluntary organisations. More than simply being an accountability tool for these organisations, social audit is one part of a holistic approach to setting, managing and reporting their social mission, values and goals. The following section elaborates further on the nature, purpose and scope of self-generated social audits.

The nature and purpose of self-generated social audit

The first-party social audit has become especially useful for organisations whose primary purpose is the maximisation of social, ethical and environmental impact in place of, or alongside, the generation of profit. Social audit is an important means for such organisations to assess if, and how successfully, they are achieving their primary purpose, and the extent to which they are acting in the interests of relevant stakeholders. Indeed, the creation and maintenance of stakeholder dialogue with shareholders is an important and central aspect of social audit. By making social audits available to all stakeholders, organisations can engage in a two-way dialogue with key stakeholders and further increase accountability towards such groups. For these organisations, then, social audit can be a holistic approach to the planning, evaluating and reporting of the impact of organisational activities and acts as:

> a logical and flexible framework that will enable your organisation to build on existing documentation and reporting systems and develop a process whereby you can: account fully for your organisation’s social, environmental and economic performance and impact; report on that performance and impact; provide the information essential for planning future action and improving performance; and be accountable to all those you work with and work for. (Kay, 2011:1).

It is important for both organisations and stakeholders to know if objectives are being achieved, to assess the impact that the organisation is having on the community, society and the environment, and to continually assess whether the values and objectives that the organisation is operating from remain relevant and up-to-date. Social audit allows those in charge of managing companies to
make themselves more accountable to both internal and external stakeholders, resulting in increases in stakeholder trust and confidence by highlighting that the organisation is sticking to its vision, values and objectives. Thus, a social audit will enhance the organisation’s reputation within local communities and wider society.

In addition to helping organisations monitor their social and ethical performance, the reflective nature of social auditing practices can aid management in shaping their strategy in a socially and ethically responsible manner. Doing so will help management identify opportunities and threats before they are incurred and by reflecting on organisational performance in this manner facilitates organisational learning. The holistic approach to social audit means that organisations should develop a set of social, ethical and environmental goals against which their performance can be assessed and evaluated. This approach is based on several key principles which can be summarised as laid out in Box 1.

Box 1: The key principles of self-generated social audit

1 **Inclusive**: Social audit should be for the benefit of stakeholders and include the voices of all relevant stakeholders.

2 **Regular**: Social auditing should be conducted in a regular and continuous cycle, with the outcomes of the social audit process fed back into the organisation.

3 **Engaging**: Stakeholder dialogue is an integral aspect of social auditing. Outcomes of social audit should be disclosed in a meaningful and proactive manner, and aim to reach all relevant stakeholders.

4 **Verifiable**: Social audit reports should be assessed by an independent external party to ensure the validity and reliability of the information produced. More information on this is contained later on in the chapter.

5 **Continuously improving**: As indicated in point 2, social auditing does not end with the production of a social report. Rather, the outcomes from the social auditing process should be re-embedded within the organisation to improve and refine social, ethical and environmental objectives and strategies.

6 **Comparable**: After several social audit cycles have been completed, organisational performance should be compared with the results of previous social audits as well as external benchmarks from other organisations or statutory regulations or societal norms.

Source: Kay (2011).
The scope of self-generated social audit

The scope of social audit will vary depending on the organisational mission and objectives. Further, there is a differentiation to be made here between the purpose of different organisations. For corporate sector organisations, their primary purpose is growing share value and increasing returns to shareholders, rather than being interested in being socially, ethically and environmentally responsible. For such organisations, the use of social audit has been questioned as being no more than an exercise to demonstrate corporate social responsibility and to manage stakeholder relations, rather than being completely altruistic. However, several corporate organisations have been influential, including Body Shop, Ben and Jerry’s and Shared Earth (Social Audit Network, 2012). On the other hand, organisations whose primary purpose is the maximisation of social, ethical and environmental issues, such as community organisations and charities will have primary goals and areas of interests that are wide-ranging. In this instance, social audit aims to capture information relating to a wide array of issues, the most common of which are detailed in Table 7.1.

<table>
<thead>
<tr>
<th>Area</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics</td>
<td>Includes creating ethical policies, checking if these are being upheld by assessing whether organisational activities undermine planned ethical practices.</td>
</tr>
<tr>
<td>Staffing</td>
<td>Includes ensuring that organisations reward, train and develop staff in a non-discriminatory, fair and equitable manner.</td>
</tr>
<tr>
<td>Environment</td>
<td>Includes policies relating to care for the environment, waste management and disposal, and whether these are adhered to. Organisations should regularly review practices to ensure they are in line with established policies.</td>
</tr>
<tr>
<td>Human Rights</td>
<td>Includes how organisations ensure that they do not violate human rights, including making sure they do not deal with, trade with or support organisations that violate human rights.</td>
</tr>
<tr>
<td>Community</td>
<td>Includes organisational policies relating to the local community and community involvement. Most commonly this takes the form of community partnerships and projects that are driven by the organisation.</td>
</tr>
<tr>
<td>Compliance</td>
<td>Includes how organisations comply with relevant legal requirements, such as health and safety, employment law, environmental law, criminal law and, of course, financial and tax laws. Note that these regulations may create legal obligations in relation to some of the other issues identified within this table.</td>
</tr>
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Table 7.1: the scope of self-generated social audit (Social Audit Network, 2012)

How are self-generated social audits conducted?

In a similar vein to supply chain audits, conducting self-generated social audits mostly involves collecting primary data in the first instance. The processes and procedures of data collection in the production of self-generated social audits are
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much the same as for supply chain social audits in that most of the information is qualitative in nature. As one of the central tenets of self-generated social audit is the involvement of all stakeholders in the process, one of the most common techniques is carrying out surveys of stakeholders via questionnaires. The content of these will vary depending on the mission, values and objectives of the organisation in question, but are designed to evaluate whether it has performed well in the eyes of stakeholders. The use of questionnaires is often supplemented by focus groups and interviews to investigate the views of stakeholders in greater depth. Organisations may supplement the above data with a review of secondary data such as policy documents, external standards and other regulations to highlight their social and ethical performance through compliance.

Whilst the gathering and presentation of data is an integral aspect of social audit, it is important that the social audit does not become a token exercise for organisations. For social audit to be most effective, it should be used by organisations to continually re-shape their social, ethical and environmental goals, objectives and activities. Stakeholders have an important role in this instance. They should continue dialogue with organisations to hold organisations to account for their actions and to ensure that they are first and foremost sticking to their overarching mission and objectives, as well as continuing to act in the interests of all stakeholders. Once data collection has been completed, the results of the questionnaires and interviews are subsequently analysed and compiled in the social audit report, which is discussed in more detail in the next section.

How are self-generated social audits reported?

The final step in the social audit process is the production and dissemination of the social audit report. Communicating the results of social audit has always been an important aspect of social audit process. In the early stages of the development of social audit, reporting was central to the activities of organisations such as Social Audit Ltd and Counter Information Services. These externally generated reports represented the first attempts to increase transparency and accountability in relation to the activities of organisations and were designed to communicate information to as wide a range of stakeholders within society as possible. Since the early developments in social audit, the creation of a dialogue with stakeholders has become one of the central principles of social audit. As a result, the social audit report is more than simply a document that is made available to stakeholders. Rather it is a process of communication between the organisation and key stakeholders. Reporting the results of social audit allows stakeholders to ascertain whether an organisation has ‘listened’ to the issues that matter to them and, if so, how they have responded. Stakeholders themselves play an important role, as they have increased demands for transparency and are taking a much more active role in communicating their expectations with respect to accountability, as well as being actively involved in the creation of the social audit report at the data collection stage.
Whilst the social audit report is an important communicative device, the usefulness of social audit reports has been questioned in some instances. Whilst companies could have completely altruistic intentions, it has been found that, in many instances, social audit reports amount to window-dressing designed to improve the organisation’s public image and appeal to a wider range of stakeholders. Further, social audit reports have been criticised for being an ineffective strategy for engendering change; rather they are used as a means of limiting the potential liability of organisations (Esbenshade, 2004). Although the main role of social auditing is to measure and assess, and at times to challenge, the activity of organisations in relation to their social objectives, it should also be used to engender positive outcomes in respect of shaping management strategy, facilitating organisational learning and strategic management and informing stakeholders.

Who conducts self-generated social audits?

Like financial audit, one of the main aspects of the self-generated social audit is verification. It is the process of reviewing the social accounts of an organisation at the end of each social accounting period to assess and reflect on whether the organisation has conducted social activities in line with the stated mission and objectives. The term ‘social audit’ is often used interchangeably with the term ‘social accounting’ to refer to the entire process from social bookkeeping through to the final audit of the social accounts. As with supply chain social audits, once the report has been prepared, these activities should ideally be reviewed by an independent third party who produces a report for circulation to relevant stakeholders, including the public. Thus, social audit allows organisations to report on their achievements based on independently verifiable evidence rather than relying on anecdotes and unsubstantiated claims. The parties that produce and independently review social audit reports will vary from between organisations and jurisdictions with organisations ranging from large commercial audit firms to small independent advisors being involved in the social audit process.

As discussed earlier, within the self-generated social audit movement there has been a range of initiatives and organisations that have been designed to provide advice on how to conduct social accounting and social audit. The most prominent of these organisations, the Social Audit Network, not only provides advice on how to carry out social audits but also helps to connect social auditors and organisations by maintaining a register of social auditors. To be accepted onto this register as an approved social auditor, individuals must complete a relevant training course, attend verification panel meetings and be approved by the Social Audit Network. Additionally, auditors are required to make annual returns to SAN regarding their relevant training and chairing activities.

There is, therefore, a movement towards bringing more coherence to the practice of self-generated social audit. Whilst there is currently no formal or standardised training for social auditors in this area, there have been calls. The AA1000 framework addresses the expectation that social auditors have the
required skills and capabilities to undertake a social audit by proposing a professional qualification linked to a training professional development programme (Gao and Zhang, 2006). The recommendations contained within AA1000 cover the competencies and knowledge required of social and ethical accountants and auditors, recommendations of the level of professional training considered necessary to support social auditors in meeting the required standard of competency, and how these standards and levels can be maintained. Ensuring that social audit reports are independently verified is therefore growing in importance within the self-generated social audit community. The main motivating factor behind this move is to increase the effectiveness and impact that social auditing has for organisations, community and society.

Summary

This chapter has presented an overview of the social audit movement. Social audit has been shown here to be multi-faceted in nature and scope and, as a result, this chapter has presented three main types of social audit.

First, a discussion of external social audits that are prepared by parties external to the organisation being audited was presented. By looking at the early developments in social audit, the chapter highlighted the origins of social audit as an external mechanism designed to increase transparency and accountability regarding the impact of organisational activities on an array of stakeholders. As stakeholders began to demand greater levels of accountability, coupled with several corporate scandals, organisations started to take responsibility for assessing and reporting on their social, ethical and environmental impact.

Along these lines, the chapter discussed two further types of social audit: supply chain audits and self-generated audit. The former concerns organisations, mainly from the corporate sector, adopting codes of conduct and external standards to ensure the safety and fair treatments of workers within supply chains. Once adopted, organisations should ensure, through a process of social audit, that these standards are being adhered to by factories and organisations in their supply chains.

Finally, the chapter considered the increased adoption of the holistic process of social audit by organisations designed with social, ethical and environmental goals in mind. The chapter detailed the development of several initiatives in this area that have resulted in moves towards professionalisation of the social audit movement across all economic sectors.
Discussion questions

1. Discuss the limitations of financial audit, and why social audit has been put forward as a more effective alternative.

2. Describe the reasons behind the increasing importance of supply chain audit and discuss the effectiveness of such audits.

3. The independence of social auditors is a significant issue in social auditing. Discuss the different options available when choosing a social auditor and comment on which option is most effective to a public sector organisation.

4. Discuss the professionalisation of the self-generated social audit movement.

References and further reading


County of Cleveland (1983). The Economic and Social Importance of the British Steel Corporation in Cleveland, County of Cleveland.


