

## Section 7 Social Audit

### Introduction

Social audit is the process which allows a social enterprise to determine what is happening within the organisation, and to identify what (if any) improvements need to be made. In this section we look at the following key topics:

#### Topic 1: What is a Social Audit?

When you have worked through this topic you should be able to:

- list the benefits of carrying out a social audit
- describe the scope of a social audit
- identify the elements of social policy which already exist within your enterprise, and those which need to be further developed or created
- set target dates for completing the process of creating any necessary elements of social policy for your social enterprise.

#### Topic 2: The Process of Social Audit

When you have worked through this topic you should be able to:

- describe the six-stage process of carrying out a social audit
- identify the tools you intend to use (if any) to assist with the social audit process.

#### Topic 3: Sustainability

When you have worked through this topic you should be able to:

- explain what sustainability means for a social enterprise
- describe some of the strategies used to achieve sustainability
- identify at least four relevant strategies for sustainability which you can put into practice within your own social enterprise, together with target dates for their implementation.

## Resource finder

Organisation	Website address
Body Shop, Australia	<a href="http://www.thebodyshop.com.au">www.thebodyshop.com.au</a>
EnviroWindows (European environmental website)	<a href="http://www.ewindows.eu.org">www.ewindows.eu.org</a>
Forum for the Future	<a href="http://www.forumforthefuture.org.uk">www.forumforthefuture.org.uk</a>
Institute of Social and Ethical Accountability	<a href="http://www.accountability.org.uk">www.accountability.org.uk</a>
New Economics Foundation	<a href="http://www.neweconomics.org">www.neweconomics.org</a>
SIGMA Project	<a href="http://www.projectsigma.com">www.projectsigma.com</a>
Social Enterprise UK	<a href="http://www.socialenterprise.co.uk">www.socialenterprise.co.uk</a>
Sustainable Development – UK government	<a href="http://www.sustainable-development.gov.uk">www.sustainable-development.gov.uk</a>
The Industrial Society	<a href="http://www.indsoc.co.uk">www.indsoc.co.uk</a>
VanCity Credit Union	<a href="http://www.vancity.com">www.vancity.com</a>

Make a note here of any other helpful resources you find.

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## Section 7 Social Audit

### Topic 1 What is a Social Audit?

Social audit (or social auditing) is the term used to describe the process of examining, measuring and reporting on an organisation's social and ethical performance. This topic will look at the benefits and scope of a social audit.

#### The focus of a social audit

Many commercial for-profit businesses are used to the audit process. In fact, it is a legal requirement that the financial affairs of incorporated organisations are audited by qualified, independent auditors. Financial auditors inspect documentation relating to financial transactions within the organisation (the accounts) to determine whether or not the accounts provide a 'true and fair' view of the profit and loss for the year; they check the financial soundness of the organisation; they aim to detect fraud; they examine the efficiency and effectiveness of expenditure and business activities, and they make suggestions for improvement.

Whilst the **focus** of a social audit is different to that of a financial audit, the process is, in fact, quite similar. During a social audit, the auditors will critically examine a number of key areas relating to the social aims and mission of the social enterprise, through dialogue with all the relevant stakeholder groups, in order to:

- look at what the social enterprise is doing
- compare actual performance to the organisation's goals
- determine where improvements need to be made, and what those improvements should be.

For a social enterprise, the key focus of the social audit is the extent to which the organisation is achieving its social aim/mission.

Here are some key comments about social audit:

'A means of assessing the social impact and ethical behaviour of an organisation in relation to its aims and those of its stakeholders. Stakeholders include all individuals and groups who are affected by, or can affect, the organisation.'

*Dr. Simon Zadek, New Economics Foundation [www.neweconomics.org](http://www.neweconomics.org)*

'The case for social and environmental audits to supplement the annual report and accounts is being accepted by a small but growing number of multinationals. There is no mistaking the direction of the underlying trend.'

*Will Hutton, The Industrial Society [www.indsoc.co.uk](http://www.indsoc.co.uk)*

'Our social audit process is helping to ensure that we are on the right course by allowing us to measure, understand, report on and, ultimately, improve our social and environmental performance ... By measuring and tracking how well we are doing, we can identify the areas that need improvement.'

*Greg McDade, Chair and Dave Mowat, CEO, VanCity (Canada's largest Credit Union) [www.vancity.com](http://www.vancity.com)*

'At the Body Shop we believe business has a moral obligation to account for its social and environmental performance in a transparent and inclusive manner ... Our social audit process is based on interactive dialogue with our stakeholders – employees, customers, community organisations and suppliers ... the report and its processes are verified by independent bodies in the social and environmental fields to ensure complete validity and reliability of the information.'

*The Body Shop, Australia [www.thebodyshop.com.au](http://www.thebodyshop.com.au)*

## What are the benefits of a social audit?

The key benefits of carrying out a social audit are:

- social and ethical impact are monitored and, where appropriate, improvements to performance are agreed
- stakeholders – members, shareholders, staff, customers, the community, investors and grant providers – can see what the enterprise is achieving and this, in turn, will develop stakeholder confidence, trust and respect
- the enterprise can see how well it is achieving its goals, and can use information from the social audit to help with the goal-setting process for the coming year
- non-traded income strategy will be informed by the social audit, as in most cases, businesses and individuals prefer to support organisations that are known to be ethically, environmentally and socially sound
- staff are more likely to enjoy job satisfaction, a sense of job security and commitment to an organisation which is sticking to its vision, values, ethics and mission – all of which can be evidenced through the process of social auditing.

## The scope of social audit

A social audit will generally examine the organisation's policies and practices in the following key areas:

- **Ethics** – what the organisation's policies are, whether or not they are being upheld or undermined by the enterprise's day-to-day activities (ethics is covered in Section 3, Topic 3)
- **Staffing** – how the enterprise rewards, trains and develops its staff, as well as the way in which the enterprise ensures that it is non-discriminatory, fair and equitable to everyone working there
- **Environment** – the enterprise's policies relating to caring for the environment, waste management and disposal, and damage reduction, and whether or not the enterprise is adhering to these policies
- **Human rights** – how it ensures that it does not violate human rights, or deal, trade with or support any organisation that violates human rights
- **Community** – the organisation's policies relating to the local community, and community involvement; these policies might, for example, cover community partnerships or community projects, and checks will be made during the social audit to ensure that agreements are being upheld
- **Society** – the organisation's policies relating to society as a whole, and the way in which the enterprise seeks to improve or benefit society
- **Compliance** – how the organisation complies with statutory and legal requirements, such as health and safety, employment law, environmental law, criminal law and, of course, financial and tax laws.

All of these policies, ethics, staffing, environment, human rights, community, society and compliance, together, create an enterprise's social policy or mission.

Whoever  
wants to reach a  
distant goal must  
take many small steps.  
**Helmut Schmidt,**  
former German  
Chancellor

## Check Point

Use this check point to identify:

- 1 those elements of your social enterprise's social policy or mission that already exist
- 2 those that need to be expanded and developed
- 3 those that need to be created.

Tick one box only for each element.

### Ethics

- All our ethical policies are complete and up to date.
- Our ethical policies need to be further developed.
- We don't have very much in the way of ethical policies at the moment – we need to start creating these.

### Staffing

- All our staffing policies are complete and up to date.
- Our staffing policies need to be further developed.
- We don't have very much in the way of staffing policies at the moment – we need to start creating these.

### Environment

- All our environmental policies are complete and up to date.
- Our environmental policies need to be further developed.
- We don't have very much in the way of environmental policies at the moment – we need to start creating these.

### Human rights

- All our human rights policies are complete and up to date.
- Our human rights policies need to be further developed.
- We don't have very much in the way of human rights policies at the moment – we need to start creating these.

### Community

- All our community policies are complete and up to date.
- Our community policies need to be further developed.
- We don't have very much in the way of community policies at the moment – we need to start creating these.

### Society

- All our policies relating to society are complete and up to date.
- Our policies relating to society need to be further developed.
- We don't have very much in the way of policies that relate to society at the moment – we need to start creating these.

### Compliance

- All our compliance policies are complete and up to date.
- Our compliance policies need to be further developed.
- We don't have very much in the way of compliance policies at the moment – we need to start creating these.

Now that you have identified which parts of your social policy need to be further developed, you might find it useful to note down some target dates in the chart below.

Target dates for starting and completing work on creating or improving these policies:

	Start	Finish
Ethics		
Staffing		
Environment		
Human rights		
Community		
Society		
Compliance		

## Section 7 Social Audit

### Topic 2 The Process of Social Audit

The very first step, of course, is to make the decision to carry out a social audit. Once that crucial decision has been made, you and your enterprise can then embark on the actual process itself. In this topic, we shall take you through the six steps of that process and help you identify any tools you may need to carry out your social audit.

#### The six-stage process

The process of taking a social audit involves:

- 1 finding out what is actually happening
- 2 comparing what is actually happening with what should be happening
- 3 identifying changes and improvements that need to be made
- 4 setting new SMART goals
- 5 having the findings verified by an independent auditor
- 6 publishing a public document – the Social Audit Report – so that everyone can read the results.

#### 1 Finding out what is actually happening

The first part of the social audit process involves consultation with your stakeholders. A key principle of social audit is inclusivity – which means that all stakeholders should be consulted. This includes: members, clients, users, customers, staff, board members, trustees, grant providers, pressure groups, suppliers and members of the local community. In other words, everyone who affects, or is affected by, the enterprise is a stakeholder.

These are the kinds of questions that a social enterprise might ask its stakeholders during the consultation process.

- To what extent are you satisfied that we are open and honest with you in our financial dealings?
- To what extent are you satisfied that we are helping you to achieve your financial goals?
- To what extent are you satisfied that we stick to our values and ethics?

#### 2 Comparing what is actually happening with what should be happening

Once all the data has been gathered from stakeholders it is time to examine the responses. For example:

Questions	Responses obtained from members
To what extent are you satisfied that we are open and honest with you in our financial dealings?	82% are totally satisfied 15% are fairly satisfied. 3% are not at all satisfied.
To what extent are you satisfied that we are helping you to achieve your financial goals?	96% are totally satisfied 4% are reasonably satisfied.

The figures shown in the responses obtained from members column are called **performance indicators**. They indicate, in percentages, how well, or otherwise, the organisation is doing.

#### 3 Identifying changes and improvements that need to be made

At this stage of the process, the responses from the stakeholders are assessed and areas for improvement are highlighted. Here is an example.

Areas for improvement	% not totally satisfied
Appearing to be more open and honest in our financial dealings	18%
Helping our members achieve their financial goals	4%

#### 4 Setting new SMART goals

Having identified, from Stage 3, where improvements need to be made, new SMART goals need to be set which will enable the enterprise to improve its performance. Here is an example.

Areas for improvement	New SMART goals
<p>Appearing to be more open and honest in our financial dealings</p> <p><i>How can we improve on this?</i></p>	<p>By 17 February 2003, design, write, publish and distribute a Newsletter for members which provides full information about our financial dealings</p> <p>Publish and distribute subsequent editions of the Newsletter every six months.</p> <p>By June next year increase our percentage of totally satisfied members to 87%.</p>
<p>Helping our members achieve their financial goals</p> <p><i>How can we improve on this?</i></p>	<p>Arrange one-to-one meetings with members and a qualified member of staff to prepare individual action plans to help this 4% of members to achieve their financial goals.</p> <p>By June next year increase our percentage of totally satisfied members to 99%.</p>

<b>SMART goals are Specific, Measurable, Achievable, Realistic and TimeRelated.</b>	<b>SMART goals are covered in detail in Section 6, Topic 4.</b>
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#### 5 Having the findings verified by an independent auditor

For the social audit process, it is not enough just to say ‘Everything is fine, and we’re achieving most of our goals. A very high percentage of all our stakeholders are totally satisfied with our performance’. You will, in fact, need an independent auditor – someone who is not a stakeholder – to verify the results of the audit. You could choose a professional auditing practice (for example, KPMG), to carry out the audit, or you might choose an individual with knowledge of both social enterprise and the social audit process.

#### 6 Publishing a Social Audit Report

The final part of the social audit process involves preparing and publishing a document which provides full details of the information derived from the audit itself.

**Websites to visit**

[www.vancity.com/menuld/52709](http://www.vancity.com/menuld/52709) – an example of a social report published by the VanCity Credit Union (click on 1998/1999 Social Report to download the document). This is a lengthy document but well worth reading, as it will give you a good insight into what should be contained in a Social Report.

[www.socialenterprise.co.uk/social.htm](http://www.socialenterprise.co.uk/social.htm) – ‘A Short History of Social Audit’.

**Companies which carry out social audits include**

<p><b>Social enterprises</b></p> <ul style="list-style-type: none"> <li>● Traidcraft</li> <li>● Shared Interest Co-operative</li> <li>● The Co-operative Bank</li> </ul>	<p><b>Commercial enterprises</b></p> <ul style="list-style-type: none"> <li>● British Petroleum</li> <li>● Happy Computers</li> <li>● Shell</li> </ul>
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## Social audit tools

Two social audit tools, *AccountAbility 1000* and *The Social Audit Toolkit*, have been developed to help social enterprises carry out their audits systematically and to a recognised standard.

### AccountAbility 1000 (AA1000)

The Institute of Social and Ethical Accountability has introduced AccountAbility 1000 (AA1000). This is a framework which focuses on social and ethical accounting, auditing and reporting, and on improving through the process of learning from stakeholders. Comments about AccountAbility include:

'AA1000 is a welcome tool bringing a coherence of process to the various initiatives in the field, and helping to smooth the path towards what must be an internationally accepted set of reporting standards.'

*Amnesty International UK Business Group*

'Our social audit is a process that ultimately enables us to improve our social and environmental process ... our process is based on an international process standard, AccountAbility 1000.'

*VanCity Credit Union*

### The Social Audit Toolkit

The Social Audit Toolkit model has been developed over the last 25 years in the UK. Using the Toolkit will enable you to:

- 1 organise an audit team
- 2 create a statement of purpose
- 3 develop an external view – based on feedback from external stakeholders
- 4 develop an internal view – based on feedback from internal stakeholders
- 5 set targets
- 6 create an audit report.

#### Websites to visit

[www.accountability.org.uk](http://www.accountability.org.uk) – the Institute of Social and Ethical Accountability and the AccountAbility 1000 framework.

[www.neweconomics.org](http://www.neweconomics.org) – the New Economics Foundation: from 1995 to 2000 the New Economics Foundation carried out a series of pioneering social audits with a range of companies including Camelot, the Co-operative Wholesale Society, and Ben and Jerry's.

#### Websites to visit

[www.socialenterprise.co.uk/socialmethuk.htm](http://www.socialenterprise.co.uk/socialmethuk.htm) – information on the Social Audit Toolkit.

[www.socialenterprise.co.uk/socialtoolover.htm](http://www.socialenterprise.co.uk/socialtoolover.htm) – a short extract from *The Social Audit Toolkit*.

Or contact Social Enterprise Partnership, St. Oswald's Barn, Herefordshire, HR3 5HB.



**Activity**

Write down two or three questions for each of the seven elements identified in Topic 1.

Ethics	1	_____
	2	_____
	3	_____
Staffing	1	_____
	2	_____
	3	_____
Environment	1	_____
	2	_____
	3	_____
Human rights	1	_____
	2	_____
	3	_____
Community	1	_____
	2	_____
	3	_____
Society	1	_____
	2	_____
	3	_____
Compliance	1	_____
	2	_____
	3	_____

As well as asking the more general questions, as in the examples given earlier in this topic, you will want to find out whether your stakeholders think you are reaching the specific goals you have stated for your enterprise. Remind yourself of these goals (see Section 6, Topic 4) and make sure some of them are reflected in your questions.

You have now begun to draw up your social audit.

## Section 7 Social Audit

### Topic 3 Sustainability

This topic looks at the meaning of sustainability and its implications for social enterprises and communities. It also suggests strategies for helping you achieve sustainability in your enterprise.

#### What is sustainability?

Sustainability is about operating and behaving in a way that can be continued and in a way that is consistent with, and supportive of, the survival of the physical environment, and the communities and economies within that physical environment.

The UK government has set out four broad objectives for sustainable development:

- 1 the maintenance of high and stable levels of economic growth and employment
- 2 social progress which meets the needs of everyone
- 3 effective protection of the environment
- 4 prudent use of natural resources.

The first two objectives, in particular, underpin the core values of social enterprise in general, as these organisations promote inclusiveness through trading.

An enterprise that operates **sustainably**:

- considers the way in which its systems, procedures and activities are likely to impact on the local environment, communities and economies
- makes whatever changes are needed in order to ensure that the enterprise at least does not have a negative impact on the local environment, communities and economies, but preferably makes a positive contribution.

An enterprise that is **not** interested in sustainability:

- pollutes the environment
- operates in a way that could have a negative impact on the health, wealth and social capital of people living in local communities
- uses up resources without considering how those resources might be replaced
- generally behaves in a manner that indicates it is interested only in present profit, rather than issues relating to the environment, social exclusion, human rights and so on, both now and in the future.

#### Sustainability in action

Social enterprise is often referred to as achieving the 'double bottom line' – i.e. economic gain and the building of social capital (the social mission). Sustainability has coined the phrase the 'triple bottom line', which in broad terms adds an environmental bottom line to the social and economic ones. So, social enterprises are already off to a flying start when it comes to sustainability.



The table below, from the Sigma project guidelines, serves to illustrate this. Interestingly, the AA1000 standard referred to in Topic 2 is being adopted for the purposes of measuring sustainability too.

Triple bottom line	Capitals model
<p><b>Environmental bottom line</b> The Natural Step</p>	<p><b>Environmental capital</b> is any stock or flow of energy and matter that yields valuable goods and services. It falls into several categories:</p> <ul style="list-style-type: none"> <li>● resources, some of which are renewable (timber, grain, fish and water), whilst others are not (fossil fuels)</li> <li>● sinks which absorb, neutralise or recycle wastes</li> <li>● processes, such as climate regulation.</li> </ul> <p>Environmental capital is the basis not only of production, but of life itself.</p>
<p><b>Social bottom line</b> Stakeholder approach</p>	<p><b>Social capital</b> is the value added to any activity or economic process by human relationships and co-operation. Social capital takes the form of structures of institutions which enable individuals to maintain and develop their human capital in partnership with others. This includes families, communities, businesses, trade unions, schools and voluntary organisations.</p> <p><b>Human/intellectual capital</b> refers to the health, knowledge, skills, motivation, ideas and innovation of people, all of which are required for productive work. Enhancing human capital (for instance, through investment in education and training) is central to a flourishing economy.</p>
<p><b>Economic bottom line</b> Stakeholder approach</p>	<p><b>Manufactured capital</b> comprises material goods (tools, machines, buildings and other forms of infrastructure) which contribute to the production process, but do not become embodied in its output.</p> <p>Intangible assets such as brand value and reputation, and the many ways in which an organisation contributes to the local, national and international economy, are also covered here.</p> <p><b>Financial capital</b> plays an important role in our economy, by reflecting the productive power of the other types of capital, and enabling them to be owned and traded. However, unlike the other types, it does not have intrinsic value; whether in shares, bonds or banknotes, its value is purely representative of natural, human, social or manufactured capital.</p>

As a social enterprise, the double bottom line approach will be inherent in your business. How can you make progress towards the triple bottom line? There are many practical ways in which your social enterprise can operate sustainably, regardless of the types of products or services with which you are involved.

Here are some specific examples:

- using recycled stationery and other recycled consumables, wherever possible
- using eco-friendly cleaning materials and building supplies
- where possible, buying supplies that use the minimum amount of packaging
- thinking about how you can reduce the amount of packaging you use, if you are selling products
- setting up systems which will allow you to recycle bottles, cans and paper used within the enterprise
- encouraging people to car-share when travelling to work, attending meetings, and so on
- actively promoting inclusiveness in every aspect of your business.

## The SIGMA Project

The SIGMA Project is a partnership between the British Standards Institution, the Institute of Social and Ethical AccountAbility and the Forum for the Future. It is funded by the Department of Trade and Industry (DTI) and supported by the UK Government. The aim of the SIGMA Project is to develop guidance for organisations that allows them to understand sustainability, and helps them to take the first steps along the path to a more sustainable way of doing business.

### Websites to visit

[www.projectsigma.com/SIGMAProject/Objectives.asp](http://www.projectsigma.com/SIGMAProject/Objectives.asp) – the SIGMA Project.

[www.forumforthefuture.org.uk/aboutus/default.asp?pageid=132](http://www.forumforthefuture.org.uk/aboutus/default.asp?pageid=132) – the Forum for the Future.

[www.sustainable-development.gov.uk](http://www.sustainable-development.gov.uk) – a rich source of information regarding the Government's approach to sustainable development.

[www.ewindows.eu.org/About/](http://www.ewindows.eu.org/About/) – EnviroWindows, the European environmental information marketplace for businesses, local authorities and their stakeholders.



## Check Point

Get together with your team and identify at least four practical things you can do, within your social enterprise, to ensure that your organisation is supporting sustainability within the business. Note down your ideas in the chart below, together with a target date for when you intend to implement these ideas.

Practical ideas for sustainability	Date by when we will put this into practice
1	
2	
3	
4	

There are plenty of ideas for supporting sustainability given in this topic, so you may well have chosen four of these, or you may have thought of something that relates specifically to your enterprise. For instance, if you run a café, you might take unused food to a shelter for the homeless at night.

