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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