



Current Developments and Trends in Social and Environmental Auditing, Reporting & Attestation: A Personal Perspective

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ABSTRACT

This is a discursive paper which attempts to provide a personal review of current and recent developments in social and environmental reporting with particular emphasis on the attestation and auditing implications. The paper takes the essential desirability of social, environmental and sustainability reporting as a crucial element in any well-functioning democracy as a given. It further assumes that any civilised, but complex, society with pretensions to social justice, that seeks a potentially sustainable future and which wishes to try and re-discover some less exploitative and less insulated relationship with the natural environment, needs social and environmental reporting as one component in redirecting its social and economic organisation. With reporting being such a central issue, the paper further, takes good quality attestation of that information as essential to both its reliability and its ability to fulfill its required role in developing transparency and accountability. The paper has three motifs: the need to clarify terminology in the field of social and environmental 'audits'; the current weakness of attestation practices in the area; and the significant - but unfulfilled - promise offered by professional accounting and auditing education and training. The paper concludes with a call for a substantial re-think of accounting education and training.

1. Introduction

It is a commonplace to observe that the term 'auditing' is used far more widely than just to mean the 'attestation of accounts'. Equally, even references to attestation are meaningless without a clear view of 'to what?' and 'for what?' we are attesting. In the field of social and environmental 'auditing' these commonplaces take on quite crucial importance. In particular, 'social auditing' and 'environmental auditing' are employed in different ways to mean very different things. Clarity here will certainly help communication. Of perhaps greater practical moment, the rise of social and environmental reporting of the last decade has brought with it an increase in the 'attestation', 'verification' and/or 'auditors' statements attached to such reports. There is more than a little concern over the quality of these 'attestations', (Ball et al., 2000; Owen et al., 2000).

This paper will attempt to clear some of the ground around 'social and environmental auditing'. To do this, it will be necessary to revisit social and environmental *accounting* in some detail. This is for two principal reasons. In the first place, the accounts of an organisation's social and environmental activities are frequently referred to as 'audits' and it is, consequently, difficult to achieve any clarity if we are unclear on what are talking about. In the second place, it is the accounts that are attested to and, given the absence of any legally-defined parameters for social and environmental accounts, there is frequently a considerable lack of clarity about what accounts might or might not show. If attestation is to the "truth and fairness" (or whatever other characteristic upon which we expect the attestation to comment) of an account we need to be clear what sort of account that might be in the context of social and environmental reporting.

The paper employs three themes or 'motifs'. These are: the need to clarify terminology in the field of social and environmental 'audits'; the current weakness of attestation practices in the area; and the significant - but unfulfilled - promise offered by professional accounting and auditing education and training. These three themes are woven throughout the paper.

The paper itself is organised as follows. The next section provides a brief history of social (and environmental) accounting and an initial explanation of terminology. Section 3, outlines some of the parameters of what social and environmental accounting means by reference to conventional financial accounting. This will provide a basis to categorise types of social/environmental accounts/audits in section 4 and to examine some of the current developments that are taking place in the field. Section 5 will consider the actual and possible purposes that lie behind the production of social and environmental accounts and I will make my own preferences clear here. Then follow the three substantive sections of the paper which will cover the attestation of environmental (and, potentially, social) data in financial statements; the nature of environmental reports and their attestation; and the format of social accounts and the implications for *their* attestation. The penultimate section will try and look forward and, in particular, consider (very briefly) the potential implications of sustainability and the emerging Global Reporting Initiative for accounting and auditing. The final section contains conclusions which point towards flaws in the education and training of accountants and auditors.

2. Background, Brief History and Terminology

Although social accounting/auditing has been around, in some form or other, since before the start of the twentieth century (see, for example, Guthrie and Parker, 1989) it is usual to plot modern social accounting from the 1970s. Social accounting (which, until fairly recently, was generally assumed to embrace environmental accounting) attracted considerable and widespread attention during the early to mid-1970s. Professional and academic accounting bodies gave serious consideration to the issue, (see, for example, ASSC, 1975; AAA, 1973; 1973b; AICPA, 1977;), businesses experimented with it in many innovative ways, (see, for example, Estes, 1976; Johnson, 1979) and even apparently staid business-representative bodies appeared to take the issue seriously, (see, for example, CBI, 1973; Hargreaves and Dauman, 1975). It is during this decade that many notable social information requirements started to enter company

legislation and whilst in the UK systematic social accounting did not quite make into the Companies Acts (Cmnd 5391, 1973; Cmnd 6888, 1977; Cmnd 7233, 1978), it did achieve legal standing in France as the *bilan social*.

This is not intended as a history for its own sake. The period produced considerable innovation from which current experiments could usefully draw - and, incidentally, save resources through the avoidance of re-inventing wheels. More significantly, the experiments of the period set many of the standards to which modern social accounting is still aspiring and established much of the terminology that is still used in the field. Organisationally-based 'social audits' were developed (albeit briefly) and guidance to companies was widely available (see, for example, Blake et al, 1976). At least as importantly, the 'independently-produced social audits' became (however briefly) a feature of company and organisational life and established many of the standards against which current attempts can be judged, (see, especially, Medawar, 1976).

Two principal lessons, I believe, need to be drawn from this period. The first lesson is about the fickleness of fashion. Despite the plethora of interest and experimentation, despite the near-miss in company law, most social accounting (but see below) disappeared without trace. If organisational accountability and stakeholder interaction were important in the 1970s, they were no less important in the 1980s and beyond. We would be ill-advised to trust in the efficacy of voluntary initiatives.

The second lesson relates to terminology. The announcement that a 'social audit' had taken place ('environmental audits' were rarely a separately identified activity at that time, but see below) had little substantive information content. It was a 'catch-all' term. In one application of the term, there were occasions when a company which had been under pressure over some actual or imagined misdemeanour would announce that, as a consequence, it would undertake a 'social audit' and this was enough to distract the pressure and, even, earn the organisation some goodwill. (This reaction appears to have been regardless of the level of substance in the statement or the rigour of the activity). Equally the term might be used to refer to a full and public examination of an organisation. Examples of this are the 'social audits' conducted and published by Social Audit Ltd (see, for example, Medawar, 1976). Alternatively, the term was employed in reference to a more focused analysis of a specific issue - such as plant closure 'social audits' (see, for example, Harte and Owen, 1987 - and see Geddes, 1988, 1991; for further examples). More significantly, in the present context, the term was also employed to refer to both a social statement - what I shall call a 'social account' - by an organisation and to a comment/attestation on such an account by an independent body.

I shall clarify some of this terminology below because more recent experience with 'environmental auditing' and currently with 'social auditing' is producing the same confusion. Simply stated, I will use 'social account' or 'social disclosure' to refer to substantial self-reporting by an organisation; 'attestation' to refer to independent comment upon such accounts; 'external social audits' to refer to the preparation and publication of a social account by a body independent of the accountable organisation; and 'social audit' (as an unqualified term) to refer to a personal pulse-taking exercise by an organisation, the output of which may, or may not, lead to the publication of a social account.

This level of terminology should suffice for now, while we turn to examine what 'social accounting' actually means.

3. What is Social Accounting?

Social accounting *is* a very wide term. It has been variously defined and one typical definition might be:

.. the preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholder interactions and activities and, where, possible, the consequences of those interactions and activities. The social account may contain financial information but is more likely to be a combination of quantified non-financial information and descriptive, non-quantified information. The social account may serve a number of purposes but discharge of the organisation's accountability to its stakeholders must be the clearly dominant of those reasons and the basis upon which the social account is judged.

The relationship between social accounting and 'conventional accounting' is not uninteresting. There is a somewhat trite tendency, that emerges from time to time, to define 'conventional accounting' by reference to current law, standards and practice and/or by reference to what accountants do. This, obviously, cannot work for social accounting as there are very few such standards and practices and little in the way of defining law. Equally, accountants, until fairly recently at least, have been little involved with the area. A more systematic attempt to define the domain of interest in conventional accounting was provided by Laughlin et al., (1988; - see also Gray et al., 1996a). This involved the identification of four characteristics which bound conventional accounting. These four characteristics are:

- a focus on discrete entities in society - the *accounting entity*;
- a restriction to *economic events* that affect the entity;
- a limitation to those economic events which can be measured in *financial terms*;
- an assumption that the resultant information should be useful for (typically, financial community) *users*.

The point of this, in the present context, is that if we maintain the *accounting entity* assumption and limit this to organisations (after all we do need something to account for), then there is a universe of all possible accounts that might be produced. Conventional (especially financial) accounting is a very severely reduced subset of that possible universe of 'accountings'. Social accounting is, at its most heroic, the generic term for all possible accountings of which (financial) accounting is a minor subset.

Put in another way, social accounting is what you get when the restrictions on conventional accounting are removed. It is thus a universe of all possible (organisational or entity) accountings which is only limited by our imagination. It certainly embraces: all accounts about non-economic events (thus including environmental events); any non-financial language accounts; and accounts for non-financial community 'users'.

It is this nearly infinite array of potential social (and environmental) accountings that are, in part, responsible for the diversity of activities and accountings that are covered by the terms social accounting/auditing.

To make progress, it is necessary to narrow things down a little more. To do this we can draw from the range of practices that fall under the heading of social accounting and try and tighten up the terminology a little further. This is the purpose of the next section.

4. Categorising Social/Environmental Accounting/Audit

There are many ways in which one might try to categorise (in order to clarify) approaches to social/environmental accounting/auditing. Figure 1 is one such attempt and, in order to maintain the key distinctions that are so essential in 'conventional' accounting and auditing, is based on the distinction between internal and external participants.

FIGURE 1 ABOUT HERE

The first (upper, left) quadrant in Figure 1 comprises those activities that a prudent and well-informed management will automatically undertake from time to time. These are the activities - often called 'audits' and resonant with the internal and management audit - in which management seek to establish (for example): whether the organisation is complying with its own principles and standards; whether it is exposed (has political, social or financial risks) in any unexpected ways; whether there are any 'bodies buried' in any embarrassing places; what opportunities are being missed; and so on. This is the inventory and taking-the-pulse role(s) of the audit. It is also here that the term 'environmental audit' first gained serious currency as a forerunner to the more sophisticated development of environmental management systems (EMS) such as BS7750, EMAS and ISO14001. More recently still, companies on both sides of the Atlantic are rumoured to be making more sophisticated in-roads into a wider array of audits to explore such matters as image management, stakeholder relationships and compliance with corporate mission and values.

Such organisational activities are very properly the province of management and are increasingly recognised as indicators of 'good management'. Although such activities require (for various reasons) careful design and execution and provide an essential basis upon which later developments in disclosure will be built, they are not *directly* concerned with external reporting and attestation (which is our primary focus here). More detailed examination of them therefore lies outside the parameters of this paper.

Much the same applies to a number of the elements in the second (upper, right) quadrant of Figure 1. A number of these 'audits' are identical to those in the first quadrant - only, in this case, outside expertise is brought in to assist the process. Preliminary environmental audits and, more recently, initial stakeholder consultations were of this sort. The major difference in the second quadrant arises from those (regulated) activities which - although not necessarily made public - are undertaken without the express approval of the organisation concerned. Freedom of information legislation, which is growing around the world, seems likely to increase both the public nature of this information and, consequently, the pressure for its attestation. However, as yet, this is not an area which auditors have been much involved, (as far as I am aware).

The third quadrant (bottom, right) is the area perhaps most associated, historically, with the term "social audit". The principal characteristic of this quadrant is that the (public) report is prepared by an organisation independent of the accountable organisation - whether or not the accountable organisation wishes it. The 'external social audits' cover a considerable diversity of initiatives - from occasional journalistic investigation to systematic monitoring of aspects of organisational activity. Their importance cannot be over-estimated in that they, in the simplest sense, represent the society's response to a failure of accountability. Not only are such 'callings-to-account' a sign of an active *demos* but they are an important indicator of both stakeholder disquiet and new emerging demands of accountability. These external social audits are sticks (as opposed to carrots) of social and environmental accountability in that if an organisation is unaware of accountability demands or reluctant to engage in accountability, then organisations external to the accountable organisation will do the job for them - with the obvious consequences.

A major issue in the external social audits has been the question of balance, accuracy and bias. These are certainly the typical charges brought against the social auditing organisation if the accountable organisation dislikes the audit. To try and develop such an argument rather misses the point that (i) the audit is a response to a (perceived?) failure on the organisation's part that, in most cases, the auditing organisation would be very pleased to see the accountable organisation correct for themselves; and (ii) as Social Audit Ltd pointed out continually (see, for example, Medawar, 1976), most organisations which are the subject of such audits are quite capable of collating and communicating their own side of the story - and, indeed, do so on a regular basis - and so an external social audit can be characterised as a *balancing* rather than as a *balanced* activity. For these reasons - plus the considerable diversity of such audits, to consider any systematic approach to attestation would be largely impractical and not especially valuable.

It is the types of 'social and environmental audits' represented by the fourth and final (lower, left) quadrant that I wish to concentrate on in this paper and, indeed, where I see the most important long-term issues in both reporting and attestation as lying.

It is when the organisation is systematically preparing and communicating social and environmental information to its stakeholders that we have the most visible (and, *potentially*, the most powerful) form of social and environmental accounting. These accounts comprise, not only those things labelled as 'social reports', 'environmental reports' or 'sustainability reports', but also the whole panoply of data that organisations reveal about themselves, whether voluntarily or under coercion. To my mind these things are accurately - and more usefully - called accounts, accounting, reporting or disclosure. In doing so we can judge them by the standards we expect of traditional accounting - we can expect the accounts to be cogent, thorough and to meet the standards of good information; we can expect a systematic bookkeeping (Dey et al., 1995) and information system to be underlying them (whether a social bookkeeping system or an EMS); and we can keep clear in our minds what is the account and what is the 'audit' (or attestation).

It is with this accounting and auditing process that the remainder of the paper will be concerned - and, in particular, what such accounting and auditing means in this context. However, before driving directly down this route, it is necessary to dwell for a few moments on the different purposes which underlie social and environmental reporting and, in doing so, to try and indicate where the distinctions drawn in Figure 1 are blurring - or even potentially inaccurate.

5. The Purposes of the Social/Environmental Account and/or Audit

Just to emphasise the points made above, it might be useful to briefly illustrate the four quadrants in Figure 1 by re-considering first the forms that an environmental 'audit' might take and then some of the forms that a social 'audit' might take. These are produced, for illustration in Figure 2.

FIGURE 2 ABOUT HERE

The categories shown in Figures 1 and 2 are not always exclusive. As a consequence of an "external social audit" (quadrant 3) an organisation may well undertake internal investigations (quadrants 1 and 2) and move towards the publication of an external report (quadrant 4). The fear of such "external social audits" may have the same effect. Equally, any organisation will know that to either produce an external report or to effectively deal with an external pressure group it needs to know its current position on environmental

and social issues. More significantly in recent years, though, two areas have blurred these distinctions further. These are the EMS 'audits' - most particularly under EMAS - and the very significant rise in NGO social audits.

Under EMAS the lines between the organisation's own published statements about EMS and the 'verifier's statement' on that report blur and it is not always possible to assess which is report and which is 'attestation'. (This is also true to some degree with other forms of environmental reporting, see, for example, Ball et al, 2000; and see also Krut and Gleckman, 1998).

The massive rise in NGO social audits (see, for example, Zadek et al., 1997; Gonella et al., 1998; NEF - see Raynard, 1995; Pearce et al., 1996) have had a novel and quite different mentality underlying them. That is, they have, in simple terms, intended to bring the external participants 'inside' the organisation, and to take the internal participants outside the organisational boundaries. Thus, there has been a deliberate attempt to blur the organisational boundaries and to see social auditing and accounting as a fluid two-way communication process through which organisational change can be achieved *via* a harmonious partnership of stakeholders. (See, for example, Gray et al, 1997; for an examination of this). In such situations, the relative positions and responsibilities of the accounting organisation and the attestor/auditor become seriously intertwined - for both good and ill. This sort of thinking has spilled over from the NGOs into the for-profit sector social reporting in the late 1990 and into the present century. Despite the novel and challenging nature of this approach to social accounting it both leads to a blurring of the purposes of the activity and runs the risk of avoiding the politically tense issues that arise (or *should* arise) in both the accounting and the attestation process, (see, for example, Owen et al., 2000).

It is probably accurate to say that these areas of blurring of distinctions have been successful in: opening up new aspects of social and environmental accounting/auditing; in raising new possibilities for the activity; and increasing the user-friendliness of social accounting to the reporting organisation. This is a double-edged sword whose ambivalence has yet to be fully resolved and, as we move inexorably forward towards standardisation in social accounting (see, especially, ISEA, 1999) the tensions between (what might be thought of as) the 'traditional accounting model' of social accounting and auditing (the quadrant 4 approach which I favour) and the approach involving this deliberate intertwining of internal/external and accountant/auditor look like competitors for the new high ground of social accounting. (See, again, Owen et al, 2000).

Why such conflict matters at all, arises from the assumed purpose of social accounting and, consequently, the purpose behind the attestation process. That is, whilst the "social accounting/auditing" processes referred to quadrants 1 and 2 are clearly managerialist, (undertaken by management for their own purposes), and the social audits in quadrant 3 are, to all intents and purposes mechanisms of social accountability, there remains a significant potential for confusion over the purpose of the quadrant 4 activities. That is, what is the actual, intended or assumed objective behind the public disclosure of social and environmental information by a reporting organisation?

At its very simplest, there are two broad - and not yet very tidy - categories of purposes behind the public disclosure of information by reporting entities - the social accounting of quadrant 4. They can be typified as either for *management control* or for *accountability* purposes.

Social accounting undertaken for **Management Control Purposes** is designed to support and facilitate the achievement of the organisation's own objectives. Such accounting would include assessing risk; managing stakeholders; image management; identification of social responsibility; public relations; seeking out opportunities and efficiencies; living by one's values ('walking the talk'); maintaining legitimacy; avoiding surprises; inclusivity; etc...

By contrast, social accounting undertaken for **Accountability, Democratic and Sustainability Purposes** is designed to support and facilitate society's in the pursuit of *its* objectives. Such reporting would cover stakeholders' rights to information; balancing power with responsibility; empowering stakeholders; owning up to eco-justice and ecological footprint failures/impossibilities; transparency; openness; demonstrating that one is 'walking the talk'; describing the limits of organisational ability; demonstrating the social and environmental cost of economic success; etc....

Whilst there will often be overlap between these two groups of purposes - and, indeed, neither is simply homogeneous - they possess one fundamental difference. The *management control* perspective puts the organisation first and, typically, assumes that it is a fundamentally benign creation; the *accountability* focus puts society first and makes no such assumption about the organisation. These are critical differences.

If the organisation *is* - or is assumed to be - predominantly benign then one may make the linguistic turn (or sleight of hand) of then assuming that what is best for the organisation is best for society. The next step is then to assume that societal accountability is best left in the organisation's (capable?) hands. We would, quite plausibly and understandable, expect any organisation to think this way. The danger is that with increasing corporatisation of society, more and more apparently independent components of society are beginning to think like this too. This sort of thinking, it seems to me, is inherent in the "intertwining" model of social accounting and (in my view) benignly but mis-guidedly promulgated by NEF and other major movers in the social accounting world.

Because the danger is that organisations are *not* uncontestedly benign and I, for one, believe that society *must* match the organisation's power with its responsibility and hold it formally accountable to society. (Of course, if the organisation is formally accountable to society we can all discover for ourselves if I am incorrect about the malign/benign nature of the organisation!)

The upshot of all of this is that if social accounting is *not* about holding organisation to account, then it is of interest to us only as management tool - not as a mechanism of a democratic society. Current managerial capture (Owen et al, 2000) of the social accounting agenda is about creating a state of affairs where something (the new 'social audits') which (we are told) looks, smells and quacks like accountability *is* indeed accountability. The truth of the matter is that it is not. The new 'social audits' are about good management and management control. They only look, smell and quack like accountability because too many have swallowed a bland and incorrect definition of accountability. They actually smell, look and quack like the ugly duckling of managerial control and *not* the swan of accountability.

I hope the argument for why accountability must be central to social accounting is clear, (it is an assumed position within this paper). This does not, in any sense, suggest that management should not continue to undertake social and environmental audits in the interest of good management - of course not. It is simply that such things must be seen as control-orientated and little or nothing to do with accountability.

For the rest of the paper, accountability will be treated as the self-evidently desirable measure of social accounting and the 'traditional accounting model' of social accounting, (i.e. self reporting by organisation to standards and the formal independent attestation of those accounts) will be used as the template mechanism for its development.

With that, I can now turn to look at the three areas I mentioned in the introduction to the paper - the attestation of financial statements;

environmental reports and their attestation; and the form of social accounts and attestation to them.

6. Attestation to Financial Statements

On the face of it, it might not seem obvious why we need to speak about the attestation of financial statements when talking about environmental and social audit. The connection might not be immediately obvious. However, there are three issues that can be usefully emphasised at this point. Two of these relate to the actual practice of the statutory financial audit and one which relates to the qualities which the statutory financial auditor brings to his or her craft.

Environmental issues in financial statements

The first matter relates to the auditing implications that arise from the increasing importance of environmental issues in the economic functioning of organisation. As Collison (1996) has demonstrated (see also Collison and Gray, 1997; Collison et al., 1996; Gray et al., 1998), environmental factors are of increasing (economic) importance to organisations - even though the organisations themselves too often fail to recognise this. These matters - including such issues as liabilities, provisions, contingencies, plant and stock write-down and, more widely, matters of risk - are, therefore, of increasing importance to the statutory auditor who needs to take formal steps to assess whether the organisation is vulnerable in these areas and has taken steps to identify and control those vulnerabilities. Too often - especially amongst the smaller firms of auditors - such matters are not being recognised and therefore not included in the overall audit and assessment of risk in the audited organisation. And the matters are not always trivial or immaterial. As Gray et al., (1998) identify, environmental issues can very quickly - and unexpectedly - become serious *going concern* issues. There would seem to be no question that all organisations will be subject to increasing environmental exposure - if only through legislation - and all auditors need to be explicitly cognisant of this. The evidence suggests that too few are currently.

The "silent social accounts"

The second issue arising with the financial statements is rather more oblique but may be of increasing importance. It arises from two matters: the auditors' responsibilities for information that is published as part of, or in conjunction with, the annual report (Collison et al, 1996; p4) and the growth of the "silent social and environmental accounts" (Gray, 1997). The simplest point about this is that companies are producing ever more social and environmental data within - or in conjunction with - their annual report and their annual reporting cycle. Much of this - charitable and political donations, employee data, corporate governance statements, for example - is a mandatory reporting requirement and must be addressed by the auditor when assessing the truth and fairness of the financial statements. But, there is an increasing amount of this data which is not of a mandatory nature and yet can still be presumed to fall within the auditor's ambit. There has been no research - of which I am aware - into auditors' practices and concerns regarding the attestation of this data but, *a priori*, auditors currently have (and have had for some time) *de facto* responsibility for social and environmental information.

If we take this just a little further, many of the larger organisations could simply produce elementary social and environmental reports *within* the existing annual report by collating all of the existing social and environmental data and drawing it together within the report as separate social and environmental statements (Gray, 1997). The resulting statements would not be especially profound social or environmental reports but would raise the profile of these issues in a simple and virtually cost-free manner. Apart from my personal fascination about what this might do to both the social construction of the organisation (see, for example, Hines, 1988) and the perceptions of the organisation by stakeholders, this could raise some interesting attestation questions - which are currently implicit in the audit process - in an explicit manner. More work is needed to develop this area of speculation.

But the most substantive point I want to raise under this brief look at social and environmental issues in the statutory financial audit process relates to the qualities and training of auditors.

Qualities of the auditor

There are three inter-related points I want to try and raise here - points which have important significance for the issues raised in the later sections of the paper. These are: the training which statutory auditors receive provides them (us) with a unique and crucially important set of skills; those skills are not, apparently, available to those non-accounting individuals and organisation which are acting as auditors/verifiers/attesters on social and environmental audit/reports; and trained auditors - or at least firms of accountants - would appear to forget these skills when required to attest to social and environmental reports.

These three observations are not - as far as I am aware - fully documented in the research literature. Although work such as that from Collison (1996); Kamp-Roelands (1996; 1999); Ball et al., (2000); and Owen et al., (2000) is certainly relevant to the argument, it is from personal experience that I primarily draw these observations.

I have long argued (see, for example, Gray, 1990) that accountants (and, now it would seem, auditors) have significant, unique and highly valuable qualities. These qualities include a fundamental understanding of matters of evidence, information systems, information itself, communication, representation and independence of mind (to name a few). With these skills, accountants can potentially bring unique and crucial insights to bear on a whole range of organisationally-related matters (not just social and environmental accounting). So, for example, *a priori*, accountants are uniquely placed to identify and develop new information representations and systems to support environmental management systems or systems for social responsibility reporting. (See, for example, Gray et al., 1993; Gray and Bebbington, forthcoming; for further development of this contention). In the matter of attestation, the skills are even more obvious, unique and crucial. That is, in my experience, no other professional group has anything approaching the innate (if *a priori*) understanding of evidence, information systems, reliance on third parties and independence that a trained auditor brings to an assessment of a report.

This uniqueness can be illustrated by a series of personal experiences with "social audit panels". In every case in which I have been involved I have refused to sign off on the accounts because, for example, the evidence I would need to enable me to attest to a statement is unavailable to me or, equally, the way in which the evidence has been collected (the 'information system') has not been careful enough for one to know that the evidence is indeed what it is represented as being. That of itself might be serious enough but the more interesting point has been that (a) I have had to explain about how to think about information systems and evidence and the explanations have been revelations to the "auditors" (who come from a very diverse set of backgrounds) and (b) the other members of the 'panel' - as well as the auditors - have been genuinely shocked to discover that I can so easily stand back and make such statements despite my close involvement (and, not infrequently, sympathy) with the organisation. That is, in a nutshell, I have yet to meet people from any other background who can bring independence, concepts of evidence and an understanding of information systems to bear on the social audit process. I put this down, entirely, to my background as an accountant and auditor. And I could make precisely the same point over many of the early developments in environmental audit as well, (see, for example, Power, 1991; 1997; for a more theoretical

analysis of this point).

And so, I see the profession as possessing something very valuable and unique. And yet, to my chagrin and, even, astonishment, it seems to me that the profession is extremely reluctant to recognise, celebrate and develop these talents. Rather, the accounting profession seems more inclined to represent itself as possessing other skills (the 'all-round business professional': consultant; the 'value-added business advisor'; objective defender of truth; etc..) which are less unique and, I would argue, less obviously those of the profession. Some extant research demonstrates that accountants do appear to be unlikely to exhibit some of these qualities in practice, (see, for example, Bebbington et al., 1994; Guilding and Kirman, 1998; Wang et al., 1997). Other, more recent research, has demonstrated that, as far as it is possible to tell, accountants leave all their training and experience at home when they turn their attention to attesting to social or environmental reports (Ball et al, 2000). (I return to this below).

And, finally, one particular experience (and I realise it would be foolish to make generalisation from a single case were it not that I fear that this is not an outlier but a tip of an iceberg) brought me up short and made me think even more carefully about what is to be an accountant. This example arose when a company I had been advising on the production of a social account came to decide on its attestation procedures. I not only advised them to follow the 'traditional accounting model' (that is, the organisation produces the accounts, an independent body with no involvement in the accounts makes an attestation to them) but to go that extra step and request their statutory financial auditors to provide the audit report on the social accounts. (This was, I believe, a world first). To my amazement, the auditors struggled in a most fundamental way to apply the principles of auditing to the accounts. Whilst, admittedly, some imagination was required in that there were no "accounting standards", this was not insurmountable. What caused the dominant consternation was (a) the lack of *specific* audit guidance and (b) the necessity (see below) of offering a highly qualified audit report. These highly able accountants with considerable audit experience could not, it would seem, make the relatively trivial step from auditing financial accounts to auditing social accounts. The exceptionally poor quality of the attestation of social and environmental accounts (Ball et al., 2000) that we currently see, suggests (to me at least) that this difficulty is not a one-off.

If these observations - that we have unique and important abilities; that these abilities are not present in many involved with social and environmental audits; and that accountants leave these precious skills behind when they undertake social and environmental attestations (or do not know how to apply them in novel situations) - *are* appropriate then I suspect we have a major problem in auditor education and training. This deserves, I believe, some substantive research attention.

7. Current State of Play in Environmental Attestation

The current state of the art in attestation to environmental reports is well covered in the descriptive work of Nancy Kamp-Roelands (Kamp-Roelands 1996, 1999) and, more critically, in Ball et al (2000). Apart from concerns over the lack of standardisation that emerge from this research, there are more worrying conclusions drawn by Ball et al.. In essence, their argument is that the attestations that have appeared to date alongside environmental reports are virtually worthless as assurances that stakeholders can rely upon the information provided in the reports. The primary reasons for this is that the attesters are typically acting under a restrictive brief from the management that appointed them. There is negligible evidence that such attestations are the result of independent enquiry or that the attesting organisation or individual is in a position to make an independent statement. Consequently, a reader of such reports would only, at best, be able to rely on the fact that the organisation has a (probably limited) environmental management system and that this system is operated in a professional manner. More particularly one would learn little or nothing about whether the environmental report is a *complete* representation of the organisation's environmental activities or anything of worth about the organisation's ecological footprint. (These matters become even more acute when the reports purport to be 'sustainability reports' - see penultimate section). This, Ball et al. argue, is evidence of 'managerial capture' in the audit of environmental statements - and as discussed above - the whole value of environmental reporting lies in accountability and the contribution that accountability can make to a well-functioning democracy. A managerially captured reporting and attestation process offers little or nothing to such an objective and may indeed do a great deal more harm than good in persuading stakeholders and society at large that the environment is safe in the organisation's hands (itself a most unlikely claim).

The implication of this, in the light of the earlier discussion, is that we may well be able to forgive the attesters, if they are not accountants, for not knowing any better. However, how do we excuse the trained auditor? Is it that the trained auditor does indeed leave his/her training behind when addressing environmental reports or are the accountants as implicated in managerial capture as the more critical commentators would suggest? (For more detail see, for example, Power, 1991; 1997; Tinker et al, 1991; Puxty, 1986; 1990; 1991; Gallhofer and Haslam, 1997; Everett and Neu, 2000). Neither conclusion warrants much applause. In addition, at a more simplistic level, such evidence begs (yet again) whether we accountants *do* serve the public interest and, pragmatically, whether the profession is aware of the extent to which it is danger of diluting and denigrating (and thereby giving away) the very precious skills of auditing.

One argument against this conclusion is, of course, that there are no substantive accounting standards on environmental reporting. Consequently, such auditing is a matter of judgement about what the thing attested to is actually supposed to mean. Whilst the statement may be true, the inference is not. Not only are there many - generally very similar - guides as to state-of-the-art environmental reporting but experience has shown that the key value of *completeness* can be relatively easily established. This is achieved by the production of an *eco-balance* type statement of all the inflows, outflows, emissions and leakages of the organisation. Such an approach, especially when coupled with (even an estimate of) an *ecological footprint* takes us beyond the trite and highly limited eco-efficiency and EMS concerns that dominate environmental audit reports. By the production of such a statement, what is and, more importantly, what is not included in the statement can be readily identified. From there it is a relatively simple step to develop an attester's report which pronounces on the limited things requested of the attester but puts it in a wider context so that the reader is left in no doubt as to what (little) reassurance they should take from the report and its audit.

I am left deeply puzzled and not a little disquieted by the apparent reluctance (?) of the audit professionals to bring the same highest standards of expertise to bear on environmental report attestation that we expect them to bring to financial statement attestation. There is no justifiable reason that I can think of for this state of affairs.

8. Current State of Play in Attestation of Social Reports

The field of environmental reporting and attestation, although in a far from ideal state, now has a substantial history and is taking on the aspect of a maturing (if still marginal) practice. By contrast, social reporting and attestation is in the throes of an upheaval. As we have already seen, the lead provided by (especially) the NGOs with a conceptual framework derived from NEF and, more latterly, ISEA has produced a wave of 'social audits' based around stakeholder dialogue and directed towards evolution of the organisation towards more

responsible behaviour rather than as a mechanism for holding organisations to account. It is this orientation that has made the approach so attractive to companies and is an approach in which lies the prospect of 'adding value to the business'.

It is the very fact that the notion is attractive to business - and for economic rather than moral reasons - which make the current approach so susceptible to Ball et al.'s managerial capture thesis. It is this concern which has prompted Owen et al.'s timely and articulate critique of the approach. As I discussed in section 5, society is in danger of believing that the current wave of social accounting is advancing the cause of accountability simply because we are told it looks and quacks like accountability when in fact it does no such thing.

In addition, as we also saw above, the 'new wave' has caused a major blurring of the separation of accounting and audit and, with few exceptions, accountants and auditors have (precisely as they did in the early years of environmental audit) once again left the field to those without the audit and accounting skills.

As with the audit of environmental statements, there would seem to be no *a priori* reasons why the standards of best audit practice cannot be applied directly to the audit of social accounts - but they are not. The absence of accounting standards could be a problem but AA 1000 is a major first step in that direction. But just as with environmental reporting, there is a basis on which to build a systematic, accountability-orientated social account that is auditable. This approach applies - not an eco-balance and ecological footprint as with environmental reporting - but the well-established stakeholder model.

Figures 3a, 3b and 3c illustrate the use of the stakeholder model.

- FIGURE 3a, IDENTIFYING THE PRIMARY STAKEHOLDER GROUPS
- FIGURE 3b, DEVELOPING THE IDENTIFICATION OF STAKEHOLDERS
- FIGURE 3c, PRIORITISING THE STAKEHOLDERS

ABOUT HERE (Figures adapted from Gray et al. 1997)

The systematic identification of *all* stakeholder groups which are then significantly refined produces a *stakeholder map* of all the potential accountabilities of the organisation. In the final Figure, (Figure 3c), the accountable organisation then identifies its priorities. (This is indicated, for one illustrative organisation, by the dotted line in Figure 3c). I tend to the view

that, a complete social account is probably impossible. Thus, the key to completeness (or perhaps 'materiality' in accountant-speak) is identification of what has been left out. Views on what the company has chosen to prioritise is, I believe, the key role for the stakeholder dialogue (see below).

For each stakeholder-organisation relationship, I believe, there needs to be four 'levels' of information if the responsibilities in the relationship are to be fully discharged. These four 'layers' are summarised in Figure 4.

As far as I can assess, the process suggested by Figures 3 and 4 would provide a clear step-by-step approach to providing a social account which all readers could assess for its completeness. The process also provides a basis for a sufficient audit trail on which a competent, trained auditor could express a worthwhile opinion.

As yet, few social accounts and even less attestation has come close to this 'ideal' - not least because such a process would be difficult (even painful) for any organisation and it is the rare organisation that would undertake such a process voluntarily. The approach would have to rely upon statute to make something like this happen and to ensure that attestation of any ensuing reports was as valuable as the statutory financial audit is supposed to be.

The current upsurge in social accounting and social auditing is an exciting and important time. Despite the efforts of ISEA - and, more recently, those of the World Business Council for Sustainable Development (WBCSD) and the Global Reporting Initiative (GRI) - the practice of social accounting is evolving without any clear 'conceptual framework'. It is probably in the interests of companies (who are, after all, undertaking this activity on a voluntary basis) that it remains a somewhat confused area. I doubt, very much, whether it is in society's interest for it to remain so confused. Equally, it seems extremely undesirable (whether for moral or pragmatic reasons), that the current state of 'auditing' in connection with social accounts continues in the confused state. The auditing profession has both a major opportunity and, I would argue, a major responsibility to encourage the application of the highest standards of attestation in this field if social 'auditing' is not to become discredited and the qualities of 'audit' further denigrated.

These concerns take on an even more acute nature when we look at 'sustainability reporting' and 'sustainability auditing'. This I do, very briefly, in the penultimate section.

9. Sustainability 'Auditing and Reporting'

It appears to be possible - although, in my view entirely incorrect - to see issues of environmental and social responsibility as marginal to the functioning of a decent society. When the concept of sustainability is introduced, this way of looking is no longer an option, (see, for example, Gladwin et al., 1995; 1997; Welford, 1997; Weizsäcker et al., 1997). Sustainability is traditionally defined as concerned with:

...development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

(The Brundtland Report, UNWCED, 1987)

It is a concept which concerns nothing less than whether humanity will survive on the planet, who of humanity will survive and the form of social and economic organisation that will permit survival. In the present context it concerns both environmental activities and social justice. Environmental reporting goes somewhat towards dealing with the environmental side of things. Social accounting would be necessary to address the social justice issues - something it has yet to get to grips with.

Not only is the concept of sustainability quite probably the most important idea any of us have to deal with - it certainly transcends many of our more trivial and parochial concerns in accounting and auditing - but it is a concept which is being steadily subjected to a managerial capture in which we, as accountants and auditors, are again implicated.

Some of the processes of this managerial capture have been recorded in the literature (see, for example, Bebbington and Thomson,

1996; Gray and Bebbington, forthcoming a.) but a more recent (and worrying) form of this capture is through the emergence of the so-called 'sustainability reports'. A sustainability report ought, one might have thought, be a detailed analysis of the extent to which an organisation was moving towards - or, more likely, moving away from - a sustainable state. (That is, it is exceptionally unlikely that almost any organisation could be thought of as acting in line with the stringent principles of sustainability, see, for example, Gray and Bebbington, forthcoming b.). However, what we find is that sustainability reports, with only a few and marginal exceptions, typically comprise a combination of an environmental report (emphasising eco-efficiency rather ecological impact) coupled with some peripheral concerns over social interaction (as opposed to an analysis of the organisation's impact on social justice). Thus, whatever else 'sustainability reports' are, they are *not* reports on the organisation's sustainability.

The danger is that by the regular use of the term 'sustainability' in the context of something which is *not* sustainability, the term will be drained of its more demanding and radical content and the crucial and exceptionally demanding nature of sustainability will be overlooked. (In precisely the same way as the new 'social audits' fail to address accountability).

Attestations are beginning to appear in these 'sustainability reports' and all the criticisms that I have rehearsed above for environmental and social reports apply with profoundly more force to any attestation attached to a report claiming to represent an organisation's activities with respect to sustainability. The situation is more acute still because, unlike the situation with an environmental or social report - where we can make a good approximation of what it means and how to assess completeness - we are still some way from being able to specify the parameters of the sustainable/non-sustainable organisation. As I have repeated above, if we do not understand the thing which the report is seeking to represent, then we cannot attest with any degree of honesty or competence to the extent to which the report achieves that representation.

10. Conclusions and the Implications for Education

This paper has attempted to give an overview of current developments in social and environmental accounting and reporting with a specific focus on the auditing/attestation issues that arise in this context. Three themes have run through the paper. These are: the dangers that arise from the confusion over terminology; the weakness of current attestation practice; and the *a priori* value that the audit training, which many of the professional accountancy bodies require of their members, has to offer in this field.

But behind those themes are two major sources of disquiet. First, why is the accounting profession standing back and letting inexperienced individuals and organisations take over and define the accounting and audit agendas in social and environmental accounting? Second, why do accountants, when they *do* engage with the social and environmental accounting and auditing agendas not apply the standards of which they are *a priori* capable?

It is my experience that *only* the accountants (potentially?) have the requisite skills and understanding to take hold of social and environmental attestation and make it mean something. This is more than a simple territorial squabble - it is about professionalism, the functioning of well-organised democracy and the exigencies of sustainability. A sensible, thoughtful and well-informed accounting profession has both considerable talents to offer here and a moral duty to engage with this most important of developments.

However, as is widely known - if only anecdotally - the accounting profession's reputation for competence and integrity within the extant statutory audit function is dangerously fragile. A brief review of current attestation practices by accountants in the fields of social and environmental accounting suggests that the fragility of that reputation is well-founded. Accountants and trained auditors do not appear to be bringing the skills, expertise and habits of independence that are so crucial to the profession to bear upon the attestation function in social and environmental reports. I would suggest that this points to a very serious and fundamental malaise within accounting.

Research into accounting education, accounting practice, ethical maturity within the profession and so on, all point to a basic flaw within the accounting education and training process. Far too often accountants seem incapable of the sort of independent, innovative and professional action and thought that a high-integrity profession should be exhibiting. My view is that the evidence suggests that the first place we should look to unpick this question is the education and training of accountants and auditors. This I have been doing within a project commissioned by ICAS on the needs of accountants for environmental education and training. The conclusions drawn from that work resonate with the arguments in this paper - accounting and auditors do not seem to understand the real, key qualities which underpin their activities and seem largely ill-equipped to either innovate or to transport their very real skills into new areas. This, I believe, argues for a very basic re-think about the form of accounting education and training.

Put more simply, the development of social, environmental and sustainability reporting is centrally crucial (I believe) to the functioning of any self-respecting democracy and to any society which has any pretensions to civilised behaviour and a just future. *Accounting is uniquely placed - in principle if not in practice - to set the very highest standards in this field and to make a profound and urgent contribution to a very real 'public interest'. As a profession we are not doing this. Why not?*

A number of conclusions are possible but key amongst them is (what I see as) the failure of the profession to genuinely engage with what it means to have a properly *educated* membership. It seems to me that the education and training of accountants is missing a major - perhaps even *the* major - purpose of professional education and training. For me that purpose is to provide a society with a highly talented workforce that can act innovatively and with integrity in the best interests of that society. I would suggest that this is not happening across a wide spectrum of activity but, most especially, is striking by its absence in the field of social, environmental and sustainability accounting reporting and auditing.

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FIGURE 1: A Categorisation of Social and Environmental Accounting and 'Audits'

Report for the consumption of...	Report compiled by...	
	Internal participants	External participants
Internal participants	<p>1.</p> <ul style="list-style-type: none"> • Environmental audits/accounting; • EMS - EMAS/ISO14001; • Attitude audits; • Stakeholder testing; • Compliance audit - e.g SA8000; • Social responsibility audit; • Mission/values audit; • Reputation management; 	<p>2.</p> <ul style="list-style-type: none"> • Regulators' report - e.g. EPA; • Supplier audits; • Duty of Care audits; • Environmental consultants; • Social responsibility checks; • Market/stakeholder research • Image audit

External participants	<p>4.</p> <ul style="list-style-type: none"> • Disclosure in annual reports; • The 'silent social accounts'; • Environmental reports; • Social reports; • GRI/'Sustainability' reports; • Compliance reports; • Mission/values statement; • Adverts/stakeholder education; • NGO social audits 	<p>3.</p> <ul style="list-style-type: none"> • The 'external social audits'; • Ethical investment/EIRIS; • Consumer audits; • Pressure group audits; • Environmental/Greenpeace • Social Audit Ltd; • Journalists; • Competitors; • Trades union reports;
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Adapted from R.H.Gray (1991) *Trends in Corporate Social and Environmental Accounting* (London: British Institute of Management)

FIGURE 2: Illustration of different forms of social and environmental reports (Referencing Figure 1)

Types of Accounting and Auditing from Figure 1	Issues Covered by the Report/Audit	
	Environmental 'Audit/Report'	Social 'Audit/Report'
Quadrant 1 <i>(Private information from 'Management Audits')</i>	a company undertakes an environmental audit to identify the forms and classes of wastes produced by its processes;	a company details (for example) its internal audit department to assess how well the overseas subsidiaries comply with the corporate mission statement on employment conditions;
Quadrant 2 <i>(Private information from external sources)</i>	the organisation may either: (a) have an external consultant come in to undertake a specific investigation into the forms and classes of wastes or (b) be subject to external audit by the environmental agency or local equivalent into its disposal of wastes;	external consultants are engaged to hold confidential dialogue with employees and other powerful stakeholders over whether the organisation is perceived as a 'good' employer in overseas countries;
Quadrant 3 <i>(The public 'external social audits')</i>	a local activist group become anxious about the wastes produced by the organisation and undertake their own investigation - seeking maximum publicity for its activities, (e.g. Friends of the Earth's polluters website);	International Labor Organization releases report about health of employees in countries in which the company operates. The company is mentioned
Quadrant 4 <i>(Public self-reporting by the organisation)</i>	the company publishes an environmental report (perhaps as part of its annual report) detailing the types and classes of wastes, their treatment and trends;	The company produces detailed report about numbers and conditions of employees working in 'developing' countries.



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