



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

GUIDELINES FOR CONDUCTING SOCIAL AUDITS

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ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266. This has now been repealed and replaced by the Accountants Act, 2013.

The functions of the Institute as prescribed by the Act are to regulate and maintain the Standard of Accountancy in Uganda and to prescribe and regulate the conduct of accountants and practising accountants in Uganda. Under its legal mandate, the Institute prescribes professional standards to be applied in the preparation and auditing of financial reports in Uganda.

Vision

To be a world class professional accountancy institute.

Mission

To develop and promote the accountancy profession in Uganda and beyond.

Core Values

- 1) Professional Excellence
- 2) Accountability
- 3) Integrity
- 4) Innovation

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

DISCLAIMER

This paper is aimed at guiding practitioners in the execution of social audits. The guide is not intended to act as a replacement of the relevant laws and regulations such as the Cooperatives Societies (Amendment) Act 2019. As such practitioners are encouraged to educate themselves of the provisions in the relevant laws and regulations and utilise this paper as an additional resource when conducting social audits.

While every care has been taken in the preparation of the paper, neither ICPAU nor its employees, members of council and its committees accept any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this paper.

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1.0 INTRODUCTION

The Cooperatives Societies (Amendment) Act 2019 hereafter referred to as the Act requires cooperative societies in Uganda to conduct annual social audits in addition to the regular audits of the financial statements. A social audit can generally be described as the process through which an entity, say a cooperative society can account for its social performance, report on and improve that performance. Cooperatives by their nature are entities formed on principles of self- help, self- responsibility, democracy, equality, equity and solidarity. They are formed by groups of individuals to meet common economic, social and cultural needs of members. Social audits provide a perfect avenue of assessing the extent to which cooperatives achieve this as well as their impact on the surrounding community and environment. This Paper specifically aims at educating and guiding practitioners on how to conduct social audits.

2.0 BACKGROUND

Social audits can be traced to the 1970s when private companies in several European countries were devising mechanisms of responding to demands from consumers and environmental movements. Social audits were then proposed as an avenue for identifying stakeholder needs and assessing the extent to which those needs were being met by company operations. In the 1980s as more countries embraced democratic governance trends, the social audit concept was quickly adopted by public sector entities as they sought to become more transparent and accountable in their operations.

In the 1990s, social audits were increasingly adopted by non-governmental organisations (NGOs) and community- based organisations (CBOs) as a means of evaluating their performance and demonstrating social accountability to their stakeholders. Since then, social audits have become increasingly popular among cooperatives, as a means of evaluating their social, environmental and economic performance.

The case is the same today as business entities are facing an ever-growing need to be more transparent about the non-financial aspects of their operations. Social audits are now widely accepted and used as a perfect avenue to promote transparency and accountability in business operations. This is because they provide a systematic, regular and objective criteria against which entities can assess their performance in terms of social plans. While variously defined, social audits are performed to assess the social impact and ethical performance of a cooperative against its stated vision, goals and social mission. The Act defines social audits as a means of promoting social and environmental sustainability in business operations.

Social audits are usually undertaken voluntarily which implies that entities reserve the right to share or not to share the findings of the social audits with their stakeholders.

This is with the exception of cooperatives in Uganda whereby the Act obligates cooperatives in Uganda to carry out social audits annually. Social audits are an accepted avenue of an entity. While social audits are used as a tool to measure an entity's effectiveness of any entity's social development services, our focus within this paper shall be dedicated to social audits as they relate to cooperative societies in Uganda.

3.0 PRINCIPLES OF SOCIAL AUDITS

The foremost principle of Social Audit is to achieve continuously improving performances relative to the chosen social objectives. Eight specific key principles have been identified from Social Auditing practices around the world.

- Multi- perspective - aim to reflect the views (voices) of all those people (stakeholders) involved with or affected by the organisation/ programme.
- Comprehensive - aims to (eventually) report on all aspects of the organisation's work and performance.
- Participatory - encourages participation of stakeholders and sharing of their values.
- Multidirectional - Stakeholders share and give feedback on multiple aspects.
- Regular - Aims to produce social accounts on a regular basis so that the concept and the practice become embedded in the culture of the organisation covering all the activities.
- Comparative - Provides a means whereby the organisation can compare its own performance each year and against appropriate external norms or benchmarks; and provide for comparisons to be made between organisations doing similar work and reporting in similar fashion.
- Verified - ensures that the social accounts are audited by a suitably experienced person with no vested interest in the organisation.
- Disclosed - ensures that the audited accounts are disclosed to stakeholders and the wider community in the interests of accountability and transparency.

4.0 LEGAL AND INSTITUTIONAL FRAMEWORK FOR SOCIAL AUDITS IN UGANDA

Social audits, unlike financial statement audits are not mandatory in Uganda and as such are usually undertaken at the discretion of the concerned entities. Some sectors however make it mandatory for entities to undertake social audits at least annually. The exception to the above is the Cooperatives sector in Uganda whereby cooperatives are mandated to conduct annual social audits. S. 22 (b) of Act states that in addition to regular audits, social audits shall be conducted annually to examine the following components:

5.0 THE CASE FOR SOCIAL AUDITS

With the increasing stakeholder demands in today's business environment, cooperatives need to consistently strive to maintain a balance between stakeholder demands and corporate objectives with regards to making a strong societal and community impact.

Social audits provide an avenue of evaluation of the extent to which corporate social responsibility initiatives have been achieved within a specific period. Social audits provide an avenue for maintaining good public relations of cooperatives as they can be used as a tool for managing public perception of corporations. Through social audits, cooperatives are able to ascertain how well received their actions are in the community in which they operate.

Social audits also lead to enhanced transparency and accountability in the operations and activities of cooperatives. This is because social audits involve a comprehensive evaluation of all the operations to the cooperatives.

Social audits also lead to enhanced stakeholder engagement. These audits provide an opportunity for members and stakeholders to provide feedback and input on the cooperatives' performance which enhances their engagement and participation.

Social audits eventually lead to enhanced reputation of the cooperatives as they provide an avenue for demonstrating social responsibility and accountability.

6.0 THE TYPICAL SOCIAL AUDIT ENGAGEMENT

6.1 Areas of Consideration

Social audits involve critical analysis of different factors within the organisation to measure, report and ultimately improve an entity's social performance. The activity of social audit would generally encompass social performance assessment and social impact assessment. Similar to audits of financial statements, social audits have a one-year cycle with the audit procedures that are comparable to those of audits of financial statements. There is no standard for the items to be included in social audits and as such their scope can be expanded or contracted based on the goals of the entity being audited.

6.2 Step by Step Approach to Design and Conduct Social Audits

Every step of the social audit process should contribute to assessing the effectiveness of the cooperative's crucial initiatives to its leadership. The steps discussed here below are demonstrative of the expected flow but as shall be discussed herein later, the

recommended framework to apply in a typical social audit may call for some alteration in the steps so mentioned here:

6.2.1 Initiating

a) Define a clear objective

Social audit objectives vary greatly, for example, they can range from broad to specific objectives. In a typical cooperatives social audit, the objective may vary from a need to assess the quality of services, the use of targeted services, effectiveness of feedback mechanisms, governance practices or the compliance with legal regulations. What is important is that the social audit needs to have a clear idea of what is being assessed, its relevance, and who within the cooperative's setup is responsible for the service, action, program or decision. Having a clear objective is essential for defining good indicators of the cooperative's social performance and generating adequate information that serves both to inform those charged with governance within the cooperative and to provide feedback to the members about specific actions or programs.

b) Define what to audit

One of the first steps to designing and implementing social audit activities is to determine what will be the subject of the social audit exercise, and/or determine /or the entry point. The subject and/or entry point maybe of a specific or general nature. For example:

- Policies/laws/programs/plans such as investment and/or development plans, annual operative plans, anti-poverty programs, access to information, procurement processes;
- Organisation: a measurement of a cooperative society's fulfilment of its vision, mission and goals, feedback mechanisms, code of good governance and ethical standards;
- Membership: a measurement on how the cooperative society responds to the needs of members, observed governance practices, considered provision for benefits of members and involved members in the affairs of the cooperative;
- Staff or employees: an assessment of the cooperative's fulfilment of the needs and welfare of the employees in terms of safety of workplace and sanitation, including the provision for compensation and benefits;
- Cooperation among cooperatives: a measurement of the cooperative society's affiliations and linkages to federations or unions, the apex society and other cooperatives;
- Community and nation: to determine the involvement of the cooperative society and its contributions to the community and nation, in general;

- Network alliance and linkages: an assessment of how the cooperative society relates to other organisations and its collaborative programs.

Recommended audit procedures during social audits are detailed in Appendix 1

c) Establish person/section responsible for the social audit (if any)

Once the entry point has been determined, then the stakeholders should be identified. That is, who are going to be the main players involved in the process, including those charged with governance, members and other beneficiaries.

6.2.2 Planning

Once the subject of social audit/ entry point has been selected, the stakeholders should move to designing the strategy and/or action plan to implement the exercise. In this part of the process, answering how would the exercise be conducted and implemented is a key element. This plan/strategy should guide the entire process and at a minimum should delineate objectives, activities, time framework, responsible individuals and engagement requirements. A typical planning process is expected to be guided as per the recommended framework in performing social audits, discussed herein after.

6.2.3 Execution

Like audits of financial statement, social audits should be planned and executed with professional scepticism. The plan for the audit process will be implemented and the audit will be performed by the selected person that best guarantees technical expertise and objectivity throughout the process. The social auditor requires a questioning mind to make a critical assessment of the evidence obtained and reliability of the documents or representations by the responsible party.

6.2.4 Reporting

At the end of the audit engagement, the social audit will need to provide a written social audit report containing the findings from the assessment highlighting the positive impact created by the entity's operations and gaps, if any.

7.0 APPLICABLE FRAMEWORK

Social audits shall be conducted in accordance with the International Standard on Related Services 4400: Engagements to perform Agreed Upon Procedures Engagements. In an agreed upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures

and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

An agreed-upon procedures engagement is not an audit, review or other assurance engagement. Like any other agreed-upon procedures engagement, social audits do not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

a) Execution

Like audits of financial statements, social audits should be planned and executed with professional scepticism. The social auditor requires a questioning mind to make a critical assessment of the evidence obtained and reliability of the documents or representations by the responsible party.

b) Reporting

At the end of the audit engagement, the social auditor will need to provide a written social audit report containing the findings from the assessment highlighting the positive impact created by the entity's operations and gaps, if any.

8.0 CONCLUSION

Social audits are a powerful tool for promoting transparency and accountability and thus performance of cooperatives. This is because social audits create an avenue of continuously assessing the degree to which the cooperatives are meeting the objectives for which they were created leading to continuous improvement in their performance.

APPENDIX

SN	Area of consideration	Expected tests/Actions
1.	Vision, mission and strategic objectives	<p>The auditor should confirm whether:</p> <ul style="list-style-type: none"> ▪ The cooperative has a well stated vision, mission and strategic objectives ▪ The cooperative has a well stated social responsibility statement. ▪ The social responsibility of the cooperative is clearly defined
2.	Code of governance	<ul style="list-style-type: none"> • The auditor should confirm whether; <ul style="list-style-type: none"> a) The existence of the cooperative's code of ethics b) Whether all the key players of the cooperative are involved in its development • The auditor should inquire and confirm the existence of an approved feedback policy. • Was the Code of Ethics approved? • Take a sample of Cooperative employees to ascertain whether they are knowledgeable about the provisions of the Code
3.	Membership	<ul style="list-style-type: none"> • The auditor should ascertain the extent of member participation in cooperative activities as follows: Number of members who patronise cooperative activities/total number of members*100 • Ascertain: <ul style="list-style-type: none"> a) The number of existing members with additional share capital b) Number of existing members with increased deposits c) The movement in the volume of member deposits and share capital • Conduct a survey to ascertain how the cooperative has uplifted members' lives as well as to ascertain the level of member satisfaction with the cooperative

4.	Feedback Mechanism	<ul style="list-style-type: none"> • Does the cooperative have an approved feedback policy mechanism? • The auditor should make inquiries about the mechanisms used to gather feedback from members • The auditor should establish the extent to which the feedback from members is acted upon using the ratio: Feedback acted upon/feedback received * 100
5.	Employees	<ul style="list-style-type: none"> • The auditor should confirm that the cooperative: <ul style="list-style-type: none"> a) Has and follows the standardised salary scale b) Is compliant with labour laws • The auditor should ascertain whether the cooperative provides monetary and non-monetary incentives/ benefits to employees • The auditor should make inquiries of the availability of employee support programs such as continuing education facilities, grievance mechanisms, etc and inspect any reports relating to such programs • The auditor should inspect the cooperative's offices to evaluate the conduciveness of the working environment. Key elements to be inspected include ventilation of the working area, working space, basic facilities such as washrooms, pantry, etc and effectiveness of equipment and devices.
6.	Cooperation among cooperatives	<ul style="list-style-type: none"> • The auditor should make inquiries of: <ul style="list-style-type: none"> a) The cooperative's affiliation and membership with other cooperatives; b) The inter-cooperative partnerships that the cooperative; • The auditor should perform testing to confirm CIP controls are designed effectively and operating as designed. This can be

		achieved in a variety of ways including, but not limited to, the following:
7.	Community and nation	<ul style="list-style-type: none"> • The auditor should make inquiries of and inspect reports of approved programs as part of the cooperative's contribution to the nation and community. • The auditor should ascertain the level of the cooperative's community outreach activities by requesting for and analysing the community outreach project reports.
8.	Network, alliances and linkages	<ul style="list-style-type: none"> • The auditor should make inquiries of whether the cooperative has any collaborative programs/ projects • Where applicable, the auditor should inspect collaborative programs/ projects reports to ascertain the level of the cooperative's participation

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