

## Methodological bases of social accounting and reporting in accordance with international standards

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### ABSTRACT

The study examines foreign experience in the formation of corporate social reporting. The essence of the concept of corporate social responsibility is also explored. The content and importance of the AA1000 standard in social reporting are explained. The formation of the social report was studied and relevant proposals and recommendations were developed.

### Keywords:

Social responsibility, social reporting, social responsibility, stakeholders, social audit, non-financial reporting, social activity

### Introduction

The emergence of corporate social reporting is directly related to the development of civil society institutions. It is an effective tool for a socially responsible enterprise, through which the business communicates its achievements and its contribution to the development of society. As a rule, the social report is aimed at the main categories of stakeholders - any person who may affect the activities of the enterprise or legal entity or individual. That is, the target audience of social reporting is much larger: they are shareholders of the enterprise, customers and consumers of goods and services; representatives of business, civil society, government and trade unions. Gaining the loyalty of at least part of the group can make a big difference for an enterprise. The principles of corporate social responsibility help to find a balance between the direct benefits to enterprises and the sustainable development of the enterprise and society in the future.

Expanding the traditional annual report at the

expense of social indicators has already reached the level of a global trend and needs to be followed in order to remain a modern, reliable enterprise.

The concept of corporate social responsibility entered the culture of corporate governance 60 years ago. Until the end of the twentieth century, this concept was seen in a narrow sense, as the responsibility of the private sector in meeting the basic requirements in the field of occupational safety, social security of employees and environmental protection, as well as relations with shareholders. The term "corporate social responsibility" began to be used in the early 1970s. The emergence of corporate social responsibility has been facilitated by a business ethic that takes into account ethical principles under the guise of practical ethics, as well as moral or ethical issues that arise in the business environment. Given the global nature of the problem of corporate social responsibility, what is of more interest to practitioners in this area is the new standard, in particular the standard of social

responsibility. Initially, a working version of the international standard ISO / WD 26000 called "Guidelines for Social Responsibility" was prepared. The working draft of the standard was prepared by the Working Group on Social Responsibility, worked under the guidance of the ISO Technical Council, and was published in 2006.

To date, experts do not have a single opinion on many sections of the standard, as a clear definition of the term "social responsibility" has not yet been developed. However, according to the extended wording within such a standard, it should refer all types of enterprises, regardless of their size and location, to:

- 1) basic concepts, terms and definitions related to social responsibility;
- 2) principles and practice of social responsibility;
- 3) integration, introduction and dissemination of socially responsible behavior within the enterprise itself and within its sphere of influence;
- 4) conditions, main trends and characteristics of social responsibility;
- 5) responsibilities of social responsibility;
- 6) main topics related to social responsibility;
- 7) exchange of information on obligations in the field of social responsibility and their fulfillment;
- 8) identify and cooperate with stakeholders.

Analysis of the relevant literature

The most important component of the corporate social responsibility system is corporate social reporting. There is no general definition of the concept of "corporate social reporting" in the scientific literature. However, various studies consider terms such as "non-financial reporting", "social responsibility reporting", "social reporting", and "social and environmental reporting".

For example, according to the Russian Social Information Agency, "A social report is a document that assesses a company's public impact". The Association of Certified Public Accountants described the nonprofit report as "Sustainable Development Reporting is an economic, environmental and social report that covers all aspects of a company's operations."

"Corporate social reporting is a tool that allows a company to be transparent and accountable not only economically, but in all areas of its activities," wrote researcher MA Burchakova. According to E. Blagov, "social reporting is a tool by which society can assess the company's activities, its social responsibility, what social programs the company implements for its employees, shareholders, customers and society as a whole."

However, in the late 1960s and early 1970s, first in the United States and the United Kingdom, then in Germany and other European countries (e.g., France and Belgium, Le Bilan Social, Spain's El Balance Social, Italy's Bilancio sociale di impresa) and different concepts of "corporate social audit" began to emerge.

In Russia, the situation is different. Non-financial reporting in Russian companies was first formulated in the 2000s. For the first time, such reports were prepared by companies such as BAT-Russia, Gazprom and Ryazanskaya GRES. After that, Alfa-Bank, FIA-Bank, Sibneft, Rusal and other companies published a similar report. To date, stable positive dynamics in the development of non-financial reporting by local companies can be noted. Thus, the most common form of social reporting is the free form. Such a report is used by many Russian companies and publishes colorful booklets about charitable programs, support for health, education, culture and sports. This form is very convenient for businesses, but it does not ensure the reliability of the report. However, it cannot be compared to similar documents drafted in accordance with international standards, so it does not help to be recognized by international enterprises.

For a long time, the instability of the Russian market forced local businesses to look for one-time and quick sources of income, which led to their irresponsible behavior. The relative stabilization of the market has made it possible to focus on long-term economic efficiency. It is for this purpose that investments are made in social activities. In Russia, the process of understanding the need for enterprises to develop social activity has only just begun to develop. However, the business community has already realized that corporate social

performance is not a detrimental phenomenon at all and that corporate social reporting (CSR)

is an effective tool for managing non-financial risks (Table 1).

Table 1  
Corporate social reporting in Russia and Europe: key differences

Таққосланувчи индикаторлар	Буюк британия ва континентал Европа	Россия
Ўз аҳамиятига кўра асосий стейкхолдерлар	Акционерлар. Ходимлар. Харидорлар. Жамият	– Мулк эгалари. – Давлат. – Ходимлар. – Харидорлар
КИМни шакллантириш учун мотивация/харакатлантирувчи кучлар	Корпорациялар. НКО ва ҳамжамият. Давлат	– Давлат (Ижрочи хокимият). – Корпорациялар. – Махаллий хокимият
Ноҳукумат ва нотижорат ташкилотларини роли	1. Кўп сонли ва хар хил. Бизнесга ёрдам берувчи ва/ёки ҳамкорлик қилувчи асосий драйверлардан («Гринпис», «Ҳамжамиятдаги бизнес» ва ҳ.з.). 2. Жамият фикрига катта таъсир кўрсатади ва бизнесга босим кўрсатувчи асосий восита ҳисобланади (масалан, «Шелл» иши ва «Брент Спар» миноралари)	1. Хозирча кам сонли. 2. Корпоратив ижтимоий ҳисоботни харакатлантирувчи кучдан (двигател) кўра кўпроқ ёрдамчи ҳисобланади
Ижтимоий ҳисобот тенденциялари	1. Ижтимоий ҳисобот бизнеснинг ўзи томонидан тузиш бошланди. 2. Ижтимоий ҳисобот бошланғич босқичидадир. 3. Ижтимоий ҳисобот стандартлари яхши мослаштирилган ва тобора кўпроқ қўлланилмоқда. 4. Ижтимоий ҳисобот манфаатдор томонларнинг кўпчилиги учун шакллантирила бошланган	1. Ижтимоий ҳисобот бошланғич босқичида. 2. У кўпинча яхлит тизим сифатида нотўғри тушунилади ва унинг узок муддатда фойдалилиги кам баҳоланади. 3. Ижтимоий ҳисобот асосан давлат ва акциядорларга қаратилган (кам даражада - жамият учун).

In Russia, corporate social reporting is still considered an exotic invented in the West so as not to get bored. However, this type of reporting makes it much easier to communicate with Western counterparties for businesses planning to enter the global market. And this not only increases the value of your business, but also the sales volume.

Many analysts now say that the main reason for compiling social reports for Russian companies is the desire to go international. Therefore, the number of socially reporting enterprises may increase mainly due to large holdings planning to enter international markets.

"Russian companies already

understand the importance of social and corporate responsibility. The use of international standards will allow them to gain dominance in the world market, gain the trust of foreign investors. Transparent activities for Russian companies is a strategic step."

### Research methodology

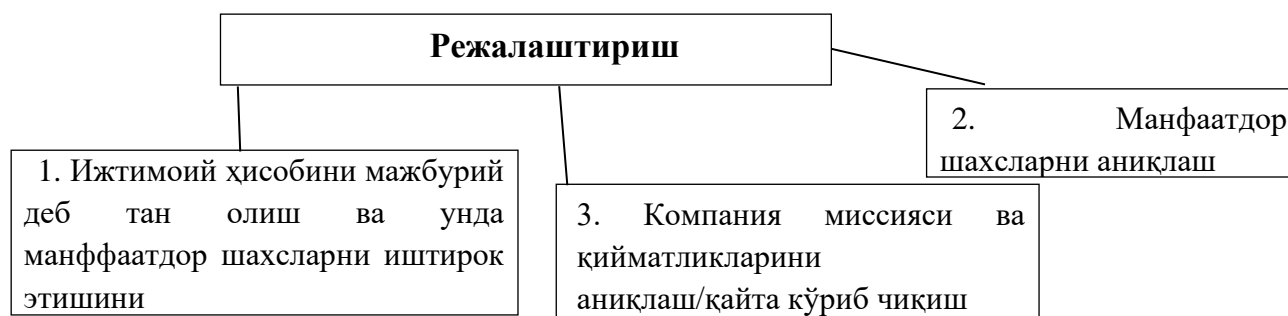
The study used methods such as observation, data collection, generalization, grouping, and comparison. Also, based on the research of local and foreign scholars on the problems of the social nature of accounting, the laws governing the field, the study of regulatory documents, scientifically based conclusions and recommendations are

formed.

Analysis and discussion of results

According to the International Corporate Social Reporting Standard, the AA1000 standard provides for high-quality social accounting, social auditing and social reporting. It was developed by the Institute of Social and Ethical Responsibility in 1999 and has been a key document since then, defining approaches to social responsibility accounting and meeting the needs of entrepreneurs interested in social initiatives.

Under the AA1000 standard, social accounting, social auditing and social reporting are carried out in several stages. The first stage is the planning stage (Figure 1).



1-Picture. The main positions of the planning phase

1. Recognition of the conduct of social accounting, social audit and the formation of the social report, and the establishment of mandatory participation of stakeholders and the definition of their participation on the principle of non-exclusion.

The management of the enterprise should take full responsibility for the conduct of social accounting, social audit and the formation of social reporting. Management should also articulate the need and opportunities for stakeholders to be involved in accounting, auditing and reporting, and their mission in these processes should be clearly articulated.

Interaction with stakeholders can be done in the following ways:

- holding regular meetings;
- Formal inclusion of stakeholders in the management of the enterprise and its part

directly responsible for social accounting, auditing and reporting;

- Formal involvement of stakeholders in the audit of social accounting, auditing and reporting;

- hiring stakeholders as auditors.

Identify stakeholder groups and the enterprise's relationship with them. Stakeholders may include:

- shareholders, owners, guardians, employees, consumers, suppliers, competitors, government agencies, non-profit organizations, local communities, civil society and others.

- The enterprise has the right to be divided into stakeholders, such as external and internal, primary and secondary, local and transnational.

The company must be prepared to compile a complete list of stakeholders.

Because it has an obligation to prepare a complete list of stakeholders.

Potential interactions are:

- period of interaction;
- the nature of the relationship (category of enterprise (supplier, customer, etc.), the number of members of the stakeholder group, the periodicity of the relationship);

- The main stages and facts of the interaction;

- Understand the interaction of each stakeholder and its plans and decisions.

- setting / changing the goals and values of the enterprise.

The enterprise must constantly define and develop its values, and the involvement of stakeholders in this process must be a mandatory and fundamental issue. The goals and values of the current period of the enterprise should be the basis for social accounting, auditing and reporting.

The enterprise should modernize its current objectives along with the values and present them in an open statement to the groups of stakeholders.

The second stage is the calculation stage (Figure 2).

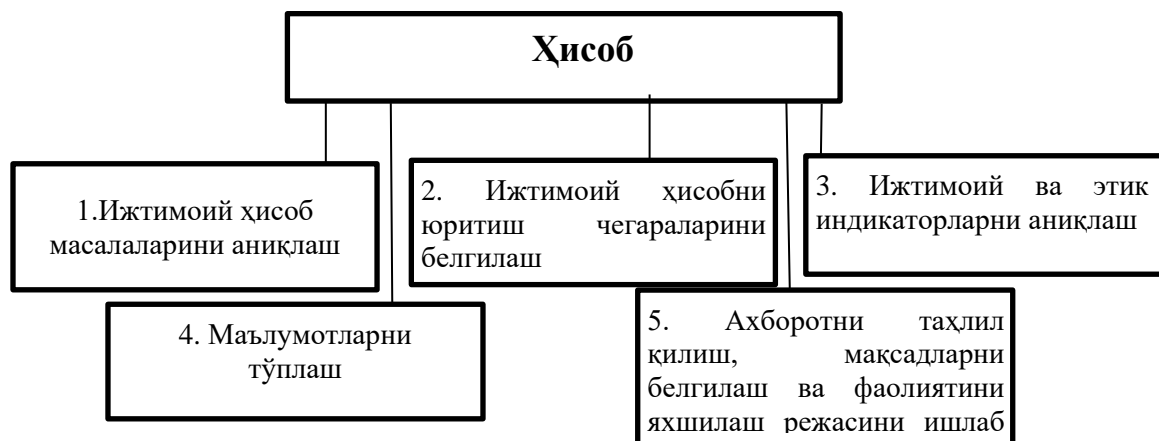


Figure 2 - Basic positions of the calculation phase

1. The enterprise should identify key issues related to the social and ethical nature of its activities, and the involvement of stakeholders is very important. At the same time, it should adhere to the principle of non-exclusion, completeness and materiality in the process of identifying problems. Such questions may be based on the following positions: enterprise values and management, accounting, regulation and control, human rights, operational practices (e.g., marketing), working conditions, enterprise products; investment activities; the impact of the enterprise on the environment, the impact of the enterprise on other areas.

The identified issues should be

considered in terms of providing an opportunity to assess the activities of the enterprise and its stakeholders.

2. Determining the boundaries of the process of social accounting, audit and reporting, the groups of interests, territorial location, organizational units, departments and issues required for coverage, as well as the timing of the process.

An entity may exclude interest groups, locations, or operations from the process of conducting social accounting, auditing, and reporting due to temporary and financial circumstances. In this case, the exclusion criteria as well as the list of exclusions must be documented. If the enterprise has

organizational divisions (branches, divisions) or is the founder of a joint venture, then the accounting will not be uniform and their issuance may have a significant impact on the understanding of the enterprise, in which case the entity must document the situation and include it in the social report.

A reasonable approach and selection process to reflect accounting problems and their relevance to the selected group should be documented, allowing them to be audited. The entity should document changes in social accounting, auditing and reporting compared to other periods and reflect them in the report.

3. The task of the enterprise is to determine its goals and values, reflecting the activities of the enterprise, the values and aspirations of stakeholders (determined in consultation with each group), social and ethical indicators of other social norms and expectations. The selected indicators should reflect the results of the enterprise in the process and have a social component. However, an enterprise may not be able to use all the indicators offered by stakeholders for a specific reason. The enterprise should work with groups to select priority indicators.

The indicators and the rationale for their selection should then be documented for

the audit.

4. The enterprise should collect information directly about its activities in accordance with the selected indicators, while the participation of stakeholders in the development of data collection methods is mandatory. Possible methods of data collection include individual and group interviews, focus groups, surveys, seminars, correspondence, public meetings, and surveys. The choice of method should be based on the capabilities of the enterprise.

5. Finally, the end point of accounting is based directly on the data collected, evaluating the actions of the enterprise based on predetermined values, goals and objectives, development and revision of goals and objectives, future improvement of social accounting, auditing and reporting, stakeholder development price and participation.

The entity should improve its objectives and take into account the comments provided by the external audit. If the stakeholders are not able to participate in the review of the enterprise objectives, then the enterprise is obliged to reconsider its objectives, allowing them to participate in future discussions after the publication of the report.

The third stage is the audit and reporting phase (Figure 3).



Figure 3 Key positions of audit and reporting

1.

An enterprise must prepare a social report that reflects the social account, audit and reporting for a certain period of time. The information provided in the report must be accurate and impartial. They should describe

social accounting, auditing and reporting and show that they can be compared to the values, goals and objectives of the enterprise.

2. The entity should provide the stakeholders with comparable information to

enable them to evaluate the entity's current performance against previous periods and external indicators. If it is not possible to provide comparable information, the reason for this must be stated.

The principles of the AA1000 standard above should be consistent with the content of the report.

The social report should include the requirements of the stakeholders, namely:

- description of the enterprise, its mission and value, management processes, including the role of stakeholders, social accounting, programs for subsequent cycles of audit and reporting, functional structure, enterprise size, methods of solving social problems, social accounting, auditing and reporting;

- information on the activities of the enterprise, including selected indicators.

To comply with the principle of information quality, the enterprise report on issues in terms of goals and values; by main types; may be divided into sections according to interest groups or other relevant methods.

The information in an entity's report should be presented in such a way that it is clear which objectives and indicators are beyond the scope of the entity's ability to influence them or how the entity is working with someone else to influence those objectives and indicators.

The social report should contain the following information:

- ☐ Stakeholders' views on issues, indicators and selection of auditors for the company's accounting, auditing and reporting;

- ☐ individual comments for each group on key issues directly related to the values of the enterprise and the interaction of the enterprise and stakeholders;

- Interaction with financial and environmental data.

The report, as well as other information of the enterprise, should have a logical structure and be written and presented in a way that is understandable to all stakeholders. Individual messages for a group should only be provided for that group.

The language, style and format of the report should be clear and understandable, avoiding or clarifying technical and scientific terms.

The second position is audit and reporting, ie the enterprise must carry out an independent external audit of the social account, internal audit and reporting system, as well as the reports themselves.

The entity selects an independent external auditor to review the social accounting system, submit an internal audit report, review the reports prepared within the entity being audited, and verify and ensure the quality of the system. For this purpose, it is effective to involve financial auditors, including representative offices of foreign audit companies in our country for social audits.

The selected auditor must meet the requirements of the stakeholders. However, you should contact the entity to explain in detail the audit method and its dimensions that are appropriate to the level of verification approved by the entity.

As a result of the effective organization of the accounting, internal audit and reporting system, the auditor should be able to plan accounting, audit and reporting and analyze their implementation. The auditor, in turn, is responsible for the formation of the social audit, as well as the audit report, however, the audit does not relieve the enterprise management of responsibility for accounting, auditing and reporting.

The auditor's report, of course, includes comments that allow the entity, as well as its stakeholders, to determine the scope of the audit, the auditor's qualifications, accounting, auditing, reporting system, its quality, the auditor's views on the reports and the audit.

It should be noted that the selected audit methodology can be confirmed by the internal audit process of the enterprise.

The entity has the ability to declare multiple auditors, i.e. to determine the reliability / validity of the social accounting, auditing and reporting system in the entity. However, the role of each auditor should be clearly defined and documented.

Finally, the third position of the audit and reporting phase is that the enterprise is obliged to inform all its social groups and all stakeholders about the accounting, auditing and reporting system. The independent auditor's social report and opinion should be open to all groups. The entity should also seek feedback from stakeholder groups to further improve social accounting, auditing and reporting, and encourage future stakeholder groups to use this accounting.

the accountant shall undertake to notify the auditor of the comments received during the audit and the reporting period.

The enterprise should create and integrate systems aimed at the development of social accounting, auditing, reporting, and subsequent achievement of goals and objectives based on common values. Such systems should include information collection, documentation, value storage, and internal audit systems. At the same time, the systems should be designed to improve the social and ethical performance of the enterprise.

An entity's accounting, auditing, and reporting systems should develop internal audits to ensure effective review of the following key issues:

- for the enterprise to achieve its goals and effectively perform the tasks (if the goals can not be achieved, then the necessary explanations are provided);
- goals and objectives reflect the mission and values of the enterprise.

An internal audit should examine the systems responsible for introducing and maintaining values; systems responsible for collecting and documenting information, as well as its reliability and completeness; compliance with laws, standards and guidelines; non-exclusion and completeness of the accounting, auditing and reporting process; achieving enterprise goals; economy and resource efficiency.

### **Conclusions and suggestions**

The integration of the results obtained and subsequent processes allows the formation and integration of systems that contribute to

social accounting, auditing and reporting based on the facts obtained.

By doing the above, the company will be able to officially declare its social account, audit and report of compliance with AA1000 standards. In addition, this fact does not require certification or additional certification.

It should be noted that the social report is formed on the basis of social account data. The lack of clear development of social accounting methods forces us to analyze the continuity of accounting and identify differences between traditional positions. Recognition of social accounting as a separate accounting in the accounting system is a new problem that has not yet been developed in the field of accounting in our country. On the one hand, there are conditions for its occurrence, which include the fact of corporate social reporting, on the other hand, it can be used in accounting for the same purposes. Social accounting is based on the rules of international standards AA1000, and its formation is at the stage of experimental development.

Social accounting uses statistical accounting data in its analytical form in its socio-statistical indicators. At the same time, the requirements for submitting social reporting under the GRI standard are broader than for the national accounting system, leading to an expansion of statistical research at the enterprise level (micro level). Thus, for the Global Reporting Initiative, the NLMK 1 Novolipetsk Metallurgical Plant report can be cited as an example of a social report prepared in accordance with the GHT Sustainability Reporting Guidelines. The plant is one of the largest and most stable metallurgical companies in the world, publishing social reports since 2005.

Data according to the GRI are presented in dynamics, i.e. not for one year, but for two reporting periods (Stichting Global Reporting Initiative (GRI) - [www.globalreporting.org](http://www.globalreporting.org)). The GRI Sustainability Report Guidelines reviewed are the Global Reporting Initiative reporting standard. The above-mentioned AA1000 standard is presented as a standard of social accounting organization, which allows to collect information about the social projects of



the enterprise and identify weaknesses in the development of social responsibility of the enterprise.

Based on the above evidence, it is necessary to take into account the indicators of social and environmental entrepreneurship in the country when making management decisions and to approach these issues with sufficient responsibility. This requires the formation of an integrated system of accounting for them and ensuring its effective operation. The focus of these tasks on increasing the effectiveness of social development implies the creation of a methodology for the search and introduction of innovations. This means that the unity of efficiency strategies as a means of achieving economic and social goals is replaced by the specific features of ways to increase the effectiveness of social development in accordance with the position of the object under study and its operating conditions. In accordance with the principles of fairness and social responsibility, certain initiatives of social reporting are identified, structured in accordance with international social standards and show the reserves for further business development.

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