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THE CONCEPT AND IMPORTANCE OF SOCIAL AUDIT FOR SUSTAINABLE COMMUNITY DEVELOPMENT

ABSTRACT

Social audit and social responsibility have become the focus of sustainable community development to address risk and sustainability challenges. Social audit involves an official review of the company's procedures and codes of conduct regarding social responsibility and community impact. Social audit involves assessing how many companies achieve sustainable development goals. In practice, an increasing number of accountants and auditors are faced with the notion of social auditing. It covers the analysis of non-financial aspects and business risks, both in the private and public sectors. This paper aims to highlight the importance and contribution of social audit through risk analysis, and environmental and social aspects for sustainable community development. The content and implementation of social audit have similar objectives as the financial audit of operations, but social audit is specifically and additionally focused on the performance and operation of organizations that are not necessarily financial in nature. Some elements of the implementation of the social audit process are increasingly present in the implementation of due diligence, but the social audit as a whole is still conducted separately. Social audit has an active and important role in achieving social responsibility and sustainable development.

Keywords: *Social Audit, Social Responsibility, Sustainable Development, Social Community*

JEL: *M14, M42, Q01, A13, G38, H82*

1. INTRODUCTION

Addressing challenges, risks and crises has fostered a commitment to the development of social responsibility and social audit and has become the focus of governments of national economies, local and regional self-government units to achieve sustainable community development. The social audit research aims to detect the contributions of social audit in economic units and emphasize the importance of strategic social audit planning. Many non-government and non-financial organizations have encouraged economic units to recognize the importance of social audit and social responsibility for sustainable development.

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Private and public sector economic entities are increasingly meeting the requirements of transparency in the implementation of social responsibility. Citizens as stakeholders are directly involved in overseeing the implementation of social audit, while the management of private and public sector companies responds to their requests by adopting and implementing social responsibility strategies. The management of business organizations conducts social audits in cooperation with non-governmental and non-profit civil society organizations. Although the requirements for social audit mostly refer to public sector organizations, the social responsibility of the private sector should not be left out in any case. Legislation, in addition to financial reporting, already requires reporting on social responsibility by measuring the effects on society and the environment, and then it is justified to conduct a social audit in terms of socio-economic, environmental and political-social aspects. Precisely because of the achievement of sustainable development of the community, the aim of this paper is to define the basic features of social audit and emphasize the importance of the implementation of social audit for achieving sustainable development of the community.

2. The concept of social audit

The concept of social audit is most often associated with public sector organizations and companies. It is an indisputable fact that innovations and changes in society are driven by social entrepreneurship, but innovations in the private sector are also automatically driven. Therefore, social audit cannot be exclusively related to social organizations of the public sector because they drive the socio-economic development of the whole community and when we talk about social audit, it means social audit of the social community. Many countries have developed their own audit institutions and expanded their audit activities especially since the 1980s. New public management and social audit theory explain the process of accelerated development especially in some international organizations, but some countries have also experienced a contraction of audit activities in the public sector (Age, 2019). Private companies whose goal is to make a profit have a significant social and environmental impact, and therefore the implementation of social audit applies to them. Therefore, social audit is not just a process for non-profit or exclusively for public organizations of society. It is correct to observe social audit in terms of the needs and requirements of all stakeholders, both in the public and private sectors. In a modern and changing environment, the number of non-profit organizations is constantly growing (Glavinić and Najev Čačija, 2018). However, in the case of public companies and organizations, the influence of stakeholders who are developing interest in their activities from various aspects is growing.

Stakeholder interest can be financial, political, environmental, cultural or other aspects of interest, and therefore there is a need for transparent and reliable information. The stated needs of all stakeholders as users of information define the scope, content and models of social audit implementation. Social audit is not and should not be an end in itself, it is a process and not an event (Pujara, 2013).

Social audit is defined as a means of measuring and recording social and environmental impacts through regular monitoring through the collection of data from interviews, documents and inspections collected within economic units (Bjorkman & Wong, 2013). Social audit is also defined as a means of ensuring that units collect and disclose social and environmental data in a satisfactory manner (Rahim & Idowu, 2015). Social oversight is also defined as a way of measuring, understanding, reporting, and ultimately improving the social and moral performance of an organization. Social audit helps to reduce the gap between vision / goal and reality, and between efficiency and effectiveness, and techniques for understanding, measuring, verifying, reporting, and improving an organization's social performance (Pujara, 2013). The performance of enterprises and organizations has an impact on the society in which they operate, and social oversight leads to unit cohesion in the market and improves its image by correcting its operating procedures and code of conduct (Rahmawati, 2018). Social audit involves the continuous study of the social performance of a private or public organization, and deals with monitoring the impact on the quality of life of the community in which the organization operates. The result of the social audit must be a written report that transparently reports the objectives and results of the social audit. The social audit report is not a legal regulation, but it is unquestionable that the process of social audit reporting must be independent in collecting and processing data, as well as reporting on the effects on social aspects and sustainable community development.

2.1. Characteristics of social audit

The objectives of social audit are conditioned by the needs of the organization's management, but also the interests of internal and external stakeholders, and include owners, management, business partners, employees, suppliers, customers, financial institutions, civil society organizations, nonprofits and/or local community, public authorities, trade unions, media and others. Regardless of whether the social audit is conducted in the private or public sector, the characteristics of social audit can be said to have certain specifics that differ from traditional business analysis, such as:

- the achievement of goals is analyzed with regard to different social characteristics of the organization

- the achievement of goals is examined in accordance with high ethical expectations
- examining the compatibility of achieving profitability and responsibility towards the social community
- the effects of social activity must be visible from the results of the social audit
- analysis of measures and initiatives in the future with the aim of improving social awareness

These requirements are aimed at strengthening the implementation of social audit in order to better control public spending. At the same time, all stakeholders call for ethical and sustainable business. Managing the public sector in today's environment of constant change is also a challenge for the audit profession. Current trends and challenges that governments need to respond to and social audit measures include: long-term fiscal balance, national security, global connectivity, social and demographic sensitivity, impact on science and technology development, preservation of quality of life and environment, and ethical governance. The scope and content of the social audit are defined by the set organizational goals. Auditing the achievement of development goals provides a huge opportunity and space for social change by putting the audit profession in the focus of citizens, especially in an effort to overcome poverty, as well as social and economic inequalities. Audit could be of great benefit by strengthening legislation and all for the benefit of the wider social community. The audit community needs to examine carefully how traditional audit boundaries can be respected, while examining national commitments to socio-economic programs to control public expenditure.

2.2. Social audit with regard to various aspects of observation

As we observe the process of socially responsible business from the social, economic, environmental and political-social aspect, so the social audit to assess the effects of social responsibility of public sector companies, focuses on the financial, environmental and social aspects of business. With the implementation of the social audit, the financial result of operations must not be excluded from the analysis, but the report is supplemented with indicators of socio-economic impact on the community. The social audit can be considered as part of a supplement to the financial audit report. Aspects covered by social audit are (Rahmawati, 2018):

1. Ethics and human rights: values, ethics and rules concerning unity. Given the scarcity of ethical debate, it is possible to identify specific cultural features of ethics, equality and the fulfilment of human rights.

2. **Work:** Creating a work environment that accepts all employees to develop their own potential as well as consumers, workers who reflect the effectiveness of social responsibility.
3. **Environment:** In the context of the natural environment, policy units monitor and reduce the damage caused by industrial activity in the natural environment. Social oversight must examine social conditions, including the environment, and identify whether the state of that environment is conducive to social environmental conditions.
4. **Community:** Investing in capital for the benefit of the community, this includes unity engaged in non-profit activities to serve the community.
5. **Meeting needs:** by identifying all legal obligations. Social oversight in this way can ensure that an organization or company is working effectively. The reputation of a unit in society largely depends on the way it operates, its code of conduct and other relevant factors of social responsibility.

The scope of the social audit depends on the defined goals and tasks that are prescribed and which are achieved during the implementation of the audit itself. If the audit of public authorities is carried out, the participation of experts in the field of public and local (self) government, citizens' representatives as external stakeholders, users of public services, as well as financial and legal experts is necessary. Furthermore, a social audit of public sector enterprises may be initiated by internal and / or external stakeholders to measure the ethical and economic management of public goods. In terms of environmental effects arising from operations in the implementation of the social audit process, in addition to environmental experts, environmental organizations should be involved in monitoring the environmental impact on the entire community (Stipić, 2022). Social audit covers all aspects of social action. Its scope involves measuring social, economic, environmental and political-social aspects. In fact, it is a form of social audit tailored to the specific socio-economic interests of the organization and its internal and external stakeholders.

3. Implementation of social audit

According to the purpose, the audit is divided into: Compliance audits that are carried out for the purpose of obtaining a guarantee that the activities have been carried out and that they are carried out according to the rules; Performance audits, focusing on three areas of verification: compliance with rules, the effectiveness of rules, and appropriateness of rules to achieve objectives (Rahim & Vicario, 2015). In accordance with the various sectors of the economy and the activities of civil society, the social audit is carried out through several of the following steps:

1. Setting social audit objectives
2. Defining the scope of social audit content
3. Defining participants and stakeholders in the implementation of social audit
4. Compilation of reports on the implementation of social audit

The implementation of social audit does not require additional infrastructure, but it is possible to implement it by supplementing the financial analysis of state audit, because state audit has a targeted application in the public sector and state institutions. In the public sector, conducting a social audit aims to better understand the social utility and measure the social performance of public sector institutions and enterprises. It should be emphasized that the stakeholders of the public company or organization in which the social audit is conducted cannot be the implementers of this procedure due to the principles of impartiality and independence.

Implementation of social audit of the public sector is possible through a platform for public debate, where it is possible to examine the ethics of officials, seek and obtain information, check financial expenditures, examine ensuring rights, discuss social and social priorities, critically evaluate the quality of public sector, as well as the functioning of program staff. Therefore, the public hearing on social audit proves to be a platform for an in-depth examination of previous works and allows stakeholders to review compliance with the requirements of transparency and accountability.

4. The importance of social audit in private and public sector businesses

An increasing amount of non-financial information affects the profitability and value-added of the companies. To a large extent, the reputation and image of the company depend on the implementation of the strategy of socially responsible business from the social, economic, environmental and political-social aspects. The management of the above has unquestionable transparency of information and cooperation with the social community, which respects the new determinants of a good manager. Therefore, it is not good to ignore the effects of companies on aspects of socially responsible business (Vinšalek Stipić, 2017). In the modern business environment, companies do not strive exclusively to make a profit, but more and more attention is paid to non-financial elements of business. The business models that companies operate are becoming more and more complex, no longer implementing exclusively profit-oriented business models but models of socially responsible business.

In recent years, the impact of non-financial business aspects has increased significantly, sometimes their impact on business is much greater than the financial aspects in creating value added for companies. The IIRC report (2012) shows a significant increase in the influence of non-financial aspects, 17% compared to 83% of financial aspects in 1975, on the company's operations, but in 2009, this ratio was 19% financial and 81% of the influence of non-financial aspects on the company's operations. It is unquestionable that even today, non-financial information about sustainability has a significant impact on business operations.

Therefore, conducting a social audit is crucial to verify the effects of companies and public sector organizations on the wider community. Former material and financial sources of creating company value (product satisfaction, market share, etc.) have lost their significance in relation to socially responsible aspects (social sensitivity, care for the environment, care for the impact on society, etc.), and business analysis is more focused on respecting the non-financial aspects of the business. The importance of social audit is to reduce risks that are not of a non-financial nature, but have an increasing impact on environmental and social performance. International Integrated Reporting Committee - IIRC (2012). He emphasizes the importance of reporting on non-financial aspects because, as they conclude, non-financial aspects of business play a significant role in achieving profitability and efficiency. As early as the 1990s, the equal importance of financial and non-financial aspects for business success was noticed, and in recent times we have noticed a significant dominance of the importance of non-financial aspects. Traditional financial analysis, as well as traditional financial audit, are becoming insufficient to address the effects of non-financial aspects of business. Therefore, social audit reports imply continuous monitoring and publication of relevant information about socially responsible business enterprises and private and public sector organizations. This involves measuring quantitative data on the effects of the implementation of social responsibility from the social, economic, environmental and political-social aspects. To this end, a number of CSR guidelines have been developed and implemented, as well as the Global Reporting Initiative Guidelines and GRI Standards.² These guidelines and standards are extremely important for the implementation of the social audit process, because the prescribed standards, their scope and defined requirements for quantitative measurement of performance in terms of social responsibility are an expert basis for conducting social audit. The very publication of the social audit report on the implementation or non-implementation of social responsibility (from the point of view of all aspects: social, economic, environmental and political-social) causes the need for continuous implementation of social audit.

2 More: (Stipić, 2022). Corporate Integrated Reporting: An Overview of GRI Standards. *Handbook of Research on Energy and Environmental Finance 4.0*, IGI Global, Pages 189-213.

5. The usefulness of implementing a social audit for the sustainable development of the economy

Social audit, organizations and companies of the private and public sector, primarily aim to determine the compliance of activities with the guidelines of socially sustainable development (Vinšalek Stipić, 2018). Based on the social audit report, it is possible to identify the achievement of social goals and define adjustments for future activities for the implementation of sustainable development. The benefits of conducting a social audit are multiple, especially for companies and public sector organizations, because their primary goal is to achieve the public interests of the wider community. The usefulness of social audit derives from accurate, regular and comparable information from independent social responsibility reports. In the beginning of measuring social responsibility, the focus was exclusively on social and environmental effects, while in recent times much attention has been paid to the socio-economic effects of social responsibility. The challenge is to create a common, comprehensive and applicable goal of applying the social audit model with an analysis of what has been done or not, with control of accounting costs. The implementation of social audit implies openness in reporting on the effects of all aspects of social responsibility. The process is open and involves the participation of all stakeholders and the exchange of relevant information for improvement in the direction of sustainable development. Furthermore, in setting the objectives of social audit, it is necessary to involve all stakeholders in order to achieve completeness in the implementation of sustainable development, covering all aspects: social, economic, environmental and political-social. This includes the involvement of environmental non-government organizations in terms of environmental impact on society and community, then unions and employees to measure the impact of labor and social rights of workers and the like. Precisely because of the above, social audit does not only mean measuring financial performance, but also social effects that have a direct impact on the sustainable development of the community.

The private and public sectors benefit equally from the implementation of the social audit. Transparency, regularity, measurability of effects, comparability of information and involvement of all stakeholders leads to the synchronization of the private and public sectors to sustainable development and progress of the economy. Quantitative measurability of effects and their transparency enables comparability with standards that have recently become legally binding. The implementation of social audit is extremely important for the public sector due to the transparency of spending and management of public goods. These benefits of social audit are related to global socio-economic trends, which means the involvement of all stakeholders to define goals, transparency to achieve goals and measurability of effects on society.

6. Social responsibility reporting and social audit as a factor of sustainable development

According to the Accounting Act (NN 47/20), in the Republic of Croatia, reporting on corporate social responsibility is mandatory for all large and medium-sized enterprises of significant economic interest. However, according to the currently valid regulations, the absence of such reporting does not bear any sanctions of the legislative bodies, ie the reporting on sustainability is exclusively on a voluntary basis. The analysis of the situation in the public sector shows a complete lack of reporting on social responsibility, ie the implementation of social audit of the effects of social, environmental, economic and political-social aspects. Based on the above, the research hypothesis was set:

H0 - The level of development of reporting on the sustainability of Croatian companies is not at a satisfactory level and is a positive factor in creating value added by companies.

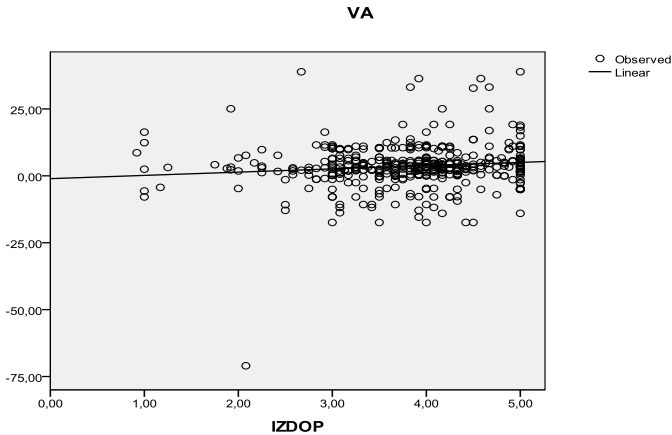
H1 - The level of development of reporting on the sustainability of Croatian companies is at a satisfactory level and is a positive factor in creating value added by companies.

Proof of the hypothesis was conducted by empirical research, a survey on the level of reporting on sustainable business on a sample of 435 respondents, from which an independent variable (Report_SR) was obtained. The survey was conducted in the period from March 1, 2021 to April 30, 2021, and the answers were given by members of the academic community: teaching staff and students by looking at the Corporate Social Responsibility Reports. The survey questionnaire consisted of a series of questions on the assessment of the level of corporate reporting on social sustainability. By reviewing the sustainability report, the company's reporting on the following statements from the survey questionnaire was assessed: Company reporting on socially responsible operations covering all aspects to all stakeholders; Reporting on estimates of the company's future impact on all stakeholders; Identifying the expectations of all interested and influential groups; Reporting on impact measurements (in the appropriate units of measure) using a tool for assessing the impact of companies on the social community; Reporting through the protocol according to the content of the GRI standard; Display of norms and certificates that the company possesses, as well as fines for deviations from legal regulations; Regularity of sustainability reporting (information is not out of date); Reporting on positive and negative effects on the social community.

The dependent variable value added of companies (VA_S) was obtained from the financial statements for 2020, while the data were processed in the statistical program SPSS by analysis of correlation and regression of set variables.

The analysis of the data obtained from Graph 1 shows a significant positive linear relationship between sustainability reporting and the creation of value added by the companies. The Cronbach's alpha coefficient is 0.965, which shows the reliability of the measuring instrument for the independent variable Report_SR.

Graph 1: Display of linear correlation of Report_SR and VA indicators



Source: Processing author

The analysis of the answers obtained from the questionnaires concludes that the reporting on social responsibility is at a satisfactory level, while the worst data are on the issue of providing data that have been estimated or assumptions and the techniques used for assessment. Precisely because of the above, social audit is the only correct procedure for solving the shortcomings of non-financial reporting and reporting on social responsibility.

Table 1: View of the regression model Report_SR and VA

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,119a	,014	,012	8,40529	,014	6,260	1	433	,013	1,898

a. Predictors: (Constant), Report_SR

b. Dependent Variable: VA_S

Source: Processing author

The correlation coefficient (0.119) from the regression model Report_SR and VA in Table 1 shows a positive correlation but it is weak between the independent variable sustainability reporting and the dependent variable value added by the companies. As the coefficient of determination is closer to zero than to one, we cannot speak of good representativeness of the model, while Durbin-Watson 1,898 means that autocorrelation of relation errors was not determined in the sample.

Indicator of independent variations with the number of degrees of freedom with a significance level of 0.05 we can conclude that the independent variable Report_SR statistically significantly predicts variations of the dependent variable VA ($F(1, 433) = 6,260$; Sig. = 0.001). By analysing the constant of the regression model ($a = -1.062$; Report_SR = 0; $p = 0.001$), we see that the lack of reporting on sustainability leads to the lack of value added by the companies, therefore we reject the null hypothesis. Due to the different measurement instruments of the variables, we analysed the standardized coefficient ($\beta = 0.119$) from which we observe a positive but weak direction of the regression line. For the independent variable Report_SR a statistically significant contribution to the regression model is determined, it is concluded that the regression model as a whole statistically significantly predicts the creation of value added, ie although there is a weak positive statistical correlation between sustainability reporting (Report_SR) and value added (VA). With a significance level of 0.05 and considering the representativeness of the model ($n = 435$), the set hypothesis H1 is partially confirmed.

7. Discussion and recommendations

In recent years, social audit has become increasingly important and has the potential on a professional basis to become a regular activity to confirm the reliability of reports on corporate social responsibility, and the effects of public sector organizations on the community. Social auditing is gaining in importance in all types of organizations globally, becoming a tool for citizens to measure their institutions. Many other ethical commitments need to be monitored, such as the professional involvement of cultural or ethnic minorities, as well as the empowerment of women in the labor market and in the social, political and economic spheres. Here are some of the main parameters for social audits:

- when conducting a social audit, it is necessary to clearly define the purpose
- stakeholders need to be properly identified
- it is necessary to identify whether there are marginalized social groups, which are otherwise excluded, and talk about issues and activities of local development
- the auditor must obtain information from reliable sources
- indicators of social responsibility should be adopted by society as a whole as standards for measuring the effects on the community
- regular meetings are needed to ensure continuity in monitoring the effectiveness of the audit
- appropriate control mechanisms must be put in place to reduce corruption in public sector organizations

- it is necessary to define a hierarchy for conducting social audits
- a stronger involvement of external stakeholders such as non-governmental organizations is needed in the audit

Undoubtedly, a model of social audit must be built, the focus of which must be the socio-economic efficiency of the subject in relation to the context of the social system for which it is intended. It is necessary to build a model of social audit which will be the formalization of an information system for assessing the social impact of public sector organizations and enterprises. An increasing number of users of non-financial reports require appropriate and independent procedures to verify the reliability of community impact data. There are two main reasons for the development and implementation of social audit: standardization and growth of needs through reporting and verification of reports on corporate social responsibility. The development of social audit is supported by the available standards that provide the basis for the professional implementation of the social audit procedure. The principles promoted in the standards define timely and complete reporting on the effects on the wider community, including social, economic, environmental and political-social aspects. Based on integrated reporting, social audit as a process of checking reliability and accuracy analyses financial and non-financial effects on all stakeholders in the community. In the process of social audit, this enables faster analytical access to information and determining the relevance of individual information. Therefore, the ultimate goal is to build a social audit tool that provides advice and information on the best ways to increase social efficiency, which we always associate with creating a good and healthy society. It is necessary to encourage economic units to recognize the importance of social audit and social responsibility in achieving sustainable community development. It is necessary to create legal frameworks for social oversight of independent social audit, as well as raising public awareness through conferences, seminars, media and workshops on issues related to social audit and social responsibility, including encouraging different government sectors to participate actively.

8. CONCLUSION

In conditions when the social community requires public organizations and companies to publish information of social importance, then social audit is gaining more and more importance and representation in practice. Public availability and reliability of the information in public authorities' organizations and enterprises are of growing interest to the general public. In this case, the information requirements imply a high level of transparency and reliability of various social performance information and therefore the implementation of a social audit is absolutely justified. The scope of the social audit implies supplementing the existing regulations with the standards of sustainable development and full information on public interest procedures.

The process of socially responsible business implies the development of social audit. As a result between public sector companies / organizations and their stakeholders, social audit is understood as interest cooperation to verify the accuracy and transparency of information on social responsibility and measurability of effects on the wider community. The importance of such information for companies and public sector organizations is visible in the importance of implementing and informing about corporate social responsibility, contributing to positive effects, for creating value added by companies. Then the social audit process significantly contributes to the transparency and reliability of information to the implementation of sustainable development of the community. Social audit and social responsibility are important as a response to economic unity as required by international bodies and organizations to measure social performance. Sustainable development is one of the main pillars for achieving sustainable development of society, which contributes to changing the current situation and continuous improvement of the use of available resources and the balance between social, environmental, economic and political-social dimensions. Social audit has a positive impact on the achievement of sustainable development of the social community, therefore, in the near future, legislation will prescribe stricter requirements for reporting on sustainability, and the obligation to conduct an audit of the Corporate Social Responsibility Report will be introduced.

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KONCEPT I VAŽNOST DRUŠTVENE REVIZIJE ZA ODRŽIVI RAZVOJ ZAJEDNICE

SAŽETAK

Društvena revizija i društvena odgovornost postali su fokus održivog razvoja zajednice za rješavanje izazova rizika i održivosti. Društvena revizija podrazumijeva službeni pregled postupaka i kodeksa ponašanja poduzeća u pogledu društvene odgovornosti i utjecaja na zajednicu. Društvena revizija podrazumijeva procjenu koliko poduzeća ostvaruju ciljeve održivog razvoja. U praksi se sve veći broj računovođa i revizora susreće s pojmom društvene revizije. Obuhvaća analizu nefinancijskih aspekata i poslovnih rizika, kako u privatnom tako i u javnom sektoru. Ovaj rad ima cilj istaknuti važnost i doprinos društvene revizije kroz analizu rizika, okolišnih i društvenih aspekata za održivi razvoj zajednice. Sadržaj i provedba socijalne revizije ima slične ciljeve kao i financijske revizije poslovanja, ali je socijalna revizija posebno i dodatno usmjerena na učinke i djelovanje organizacija koje nisu nužno financijske prirode. Neki elementi provedbe postupka socijalne revizije sve su prisutniji u provedbi due diligencea, ali se društvena revizija kao cjelina još uvijek provodi zasebno. Društvena revizija ima aktivnu i važnu ulogu u postizanju društvene odgovornosti i održivog razvoja.

Ključne riječi: *Društvena revizija, društvena odgovornost, održivi razvoj, održivost zajednice*

JEL: *M14, M42, Q01, A13, G38, H82*