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## Consultation Draft of the Global Standards for the Reporting and Assurance of company alignment with the UN Guiding Principles in Business and Human Rights

July 1<sup>st</sup>, 2013

Dear Mrs. Triponel, M. Manurung,

Deloitte Touche Tohmatsu Limited is pleased to respond to the Shift / Mazars Project Team's Discussion Paper on "Developing Global Standards for the Reporting and Assurance of Company Alignment with the UN Guiding Principles on Business and Human Rights".

You will find below our views and comments regarding the points highlighted at the end of each of the sub-sections in sections 2 and 3 of the Discussion Paper, as well as regarding additional identified issues:

### 1. Elements for inclusion in the Reporting and Assurance Standards, set out in annex B

- Our experience shows that when responding to engagements, most reporting companies rarely resort to the initial Framework, in the present case the UN Guiding Principles, preferring instead to refer directly to the content of the related Reporting Standard for compliance guidance.

Consequently, we recommend that the Reporting Standard be as close as possible to a **self-standing frame of reference**, providing engaging parties with a **sufficient basis to determine the necessary procedures to fulfill the requirements** of the UN Guiding Principles:

- the criteria set out in the Reporting Standard should be broken down into procedures and practices at the furthest operational level possible;
  - any explanatory material relevant to the proper application and interpretation of the UN Guiding Principles, which could provide background information or guidance on what they mean or are intended to cover, should be included in the Reporting Standard.
- Besides, facing the challenge of implementing a new reporting process, we believe that engaging parties should be fully knowledgeable on the exact criteria they will be audited against. Therefore, we recommend the **strongest alignment possible between the Reporting and the Assurance standards**, based on a **common set of criteria** to enable reasonably consistent measurement and evaluation.

## 2. The possibility that companies may limit a Statement to certain aspects of their operations (section 2.1)

- In our opinion, the principle of **covering a limited operational or geographical scope** in the Statement **is acceptable and relevant** given the complexity of implementing human right due diligence for engaging parties.
- However, the Reporting Standard should **clearly state that the scope should be as representative as possible** of the engaging party's operational context, taking into account its different activities, business practices, countries of operation and markets.
- Besides, we recommend that the Reporting Standard includes a requirement for the Assessment scope to be :
  - **annually reviewed and updated**, to ensure that it reflects changing conditions in the company's operations;
  - **progressively extended**, to take into account emerging human rights challenges and embed the company in a continuous improvement approach.

## 3. The proposal to include information about salient Human Rights risks, as well as general human rights policies and processes, in the Statement (section 2.2)

- Disclosure of a "heat mapping" of risks, rating the most salient for the company in regard to the risk its operations pose to human rights, indicates that the company has engaged in the starting point to understand how to translate its human rights policy commitment into practice.

Therefore, we believe that **including information on the company's salient Human Rights in the Statement has strong added value** for both the engaging party and its external stakeholders.

## 4. The degree of disclosure about how the company addresses potential or actual severe impacts in the Statement (section 2.3)

- We agree that companies **should not be expected to disclose all of their adverse impacts** on Human Rights, but should disclose the specific processes implemented to address **actual severe impacts and those which could potentially rise to the level of being severe**.

## 5. The inclusion of additional matters in the Human rights Statement, beyond the baseline requirements proposed in sections 2.1, 2.2 and 2.3 (section 2.4)

- Internationally recognized Human Rights cover a very wide scope of themes and topics, a large proportion of which are already covered by multinational companies' sustainability / CSR reporting and communication.

Therefore, in the context of a wide array of underlying subject matters, **we do not recommend to disclose** in the Statement either:

- Human Rights risks and impacts which are **not assessed as salient or severe**;
- Corporate responsibility **actions engaged to compensate (and not mitigate)** human rights impacts, such as for instance philanthropic responses to natural disasters.

In our opinion, such level of disclosure would present a risk of:

- Dilution of the material information presented in the Statement for stakeholders / intended users;

- redundancy with information already disclosed in other sustainability reporting tools.

## 6. The appropriate approach for assessing Scoping Materiality and, any other general factors that should be considered (section 3.1)

- The **criteria proposed to determine what is material for the assurance's scope** should include, in addition to those proposed in the discussion paper :
  - the past social and human rights performance not only of a business partner but **of the company itself**, based on previous incidents or concerns raised by relevant stakeholders;
  - The company's **third party relationships** (supply chain, security forces, government relations...);
  - When and if appropriate, **the raw materials used in the production process**, which could be potentially be sourced from conflict-affected areas.

## 7. The proposed definitions of “Material Weakness” and “Material Misstatement or Omission” (section 3.2)

- We agree with the proposed definition of **Material Weakness**, which applies both to human rights due diligence processes and to their outcomes: *“a deficiency, combination of deficiencies, or systemic failure, that is likely to prevent the company from **identifying or addressing** its salient Human Rights risks or any severe human rights risks or impacts connected to its operations, products or services.”*
- We recommend to align as far as possible the definition of **Material Misstatement** with the one provided for in the International Federation of Accountants' *International Standard on Assurance Engagements (ISAE) 3000*:

*“Misstatement: A difference between the subject matter information and the proper measurement or evaluation (including, where relevant, presentation and disclosure) of the underlying subject matter against the applicable criteria. (...) Misstatements can be intentional or unintentional, **and include omissions**.  
Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.”*
- These definitions should be included in both the Reporting and the Assurance Standards.

## 8. The nature and amount of evidence that assurance providers should examine in order to provide the Assurance report (section 3.3)

- We agree that the nature of evidence examined by assurance providers should go **beyond the testing of quantitative information** to include **qualitative sources** such as interviews, testimonials, observations and documentation.  
In our opinion, this approach is particularly suitable given the inherent interconnection between Human Rights issues and topics; besides, it facilitates a forward-looking insight on the ability of companies' management systems to address the risk of future impacts on Human Rights.
- We agree to the absolute necessity of **triangulating the obtained evidence with the company's external stakeholders**.

**9. The handling of relevant information not included in the public assurance report (section 3.4)**

- We agree that the Assurance provider should report to the engaging party on any misstatements, omissions or other concerns considered more than “inconsequential” but less than “material” **in a separate report** than the Assurance Report, **without disclosure requirements.**

**10. Whether the reasonable assurance level is appropriate for this Assurance review (section 3.5)**

- Upstream of the debate on the appropriate level of assurance, the **disclosed information must be eligible to be subjected to procedures** for obtaining sufficient appropriate evidence to support a reasonable assurance conclusion.  
We therefore highly condition any position regarding the Assurance level to the fact that **the criteria listed in the Reporting Standard** respond to the **5 characteristics** of the International Federation of Accountants’ *International Standard on Assurance Engagements* (ISAE) 3000: **relevance, completeness, reliability, neutrality and understandability.**
- That being said, regarding the characteristics of the subject matter, we agree to **the suitability of the reasonable assurance level** for the Assurance review.

**11. The competencies of Human Rights assurance providers, and whether and to what extent they can or should be assessed and/or certified.**

- To the proposed competencies of Human Rights assurance providers: *“Independence and integrity; professional skepticism; the capacity to assess an international company’s worldwide operations; an understanding of the company’s particular sector and operations, business relationships and risks; familiarity with internal controls processes (e.g., risk management); familiarity with human rights and the UN Guiding Principles; and the ability to Interview local Stakeholders and Assess the Quality of Stakeholder engagement processes and relationships”*,

**we recommend adding the following:**

- Confidentiality;
  - Systematic documentation practices;
  - Assurance report writing skills;
- To guarantee a consistency in the approach, we strongly recommend that all Human Rights Assurance providers go through **an accreditation process** aiming to guarantee that they have :
    - specialist knowledge and competence in assurance skills and techniques;
    - the necessary background and experience to be able to properly apply the Assurance Standard.

We recommend that the accreditation process be completed with an **additional training program** covering the **basics on Human Rights in Business**, which could be updated every year with emerging Human Rights topics and eventually include sectorial tutoring covering industry specific challenges. The program could be offered online via electronic learning tools.

## Views and comments on additional issues

- In our opinion, the Statement and Assurance Report should be **either self-standing or reside within an annual report** (potentially outside the main body of accounts on which the external financial auditor is providing assurance). It may **include links to other reports and communications** such as sustainability reports or integrated reports.
- We recommend that the Statement and Assurance Report be incorporated **in a broader sustainability report, if and only if they are also published according one of the two configurations described above** (stand-alone report or annual report).

Given the wide array of underlying subject matters related to Human Rights and the common perimeters of sustainability and Human Rights information, we identify a **high risk of content duplication and confusion for intended readers** associated with this disclosure option.

- The drafting project of the twin set of Standards occurs amongst **numerous existing and future sustainability engagement circumstances** for companies.

We therefore stress the importance of adopting a flexible and understanding auditing approach which enables the **mutual recognition of other applicable audits** conducted in the different present and future **related frameworks and certification schemes** (such as the *Accountability 1000 Stakeholder Engagement Standard*, the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* or the upcoming *Integrated Reporting Framework* of the International Integrated Reporting Council (IIRC)).

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