Report on Rafi Assurance Practitioner's Roundtable

London 20 November, 2014

Attendees:
Ian Ball – IIRC
Anna Jakobsen – EY
Christian Honore – KPMG
Atul Patel – PwC
Patrick Shaw-Brown – PwC
Debbie Reynolds – Good Corporation
Tim Smith GSK

Project team:
Caroline Rees - Shift
Anna Triponel - Shift
Richard Karmel - Mazars
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Time: 9.30am to 1.30pm
Location: Mazars LLP, Tower Bridge House, London E1W 1DD

The objective of this roundtable was to discuss and elaborate on certain assurance issues set out in a draft paper – Vision of Assurance of Human Rights Reporting.
Key issues discussed:

1. The purpose and value of human rights assurance.
2. The potential users of the assurance framework
3. The information being assured
4. The different levels of assurance (limited v reasonable)
5. Ways in which the assurance opinion can deliver greater value
6. Competencies of the assurance provider
7. Oversight of the assurance providers

1. The purpose and value of human rights assurance.
It was noted that the terms "auditing" and "assurance" typically led to some confusion in the field of business and human rights. "Human rights auditing" or "social auditing" was recognised as quite distinct from an "audit" in the traditional financial sense of the word, and often led to certification in respect of treatment of workers at supplier factories or facilities.
For the purposes of this roundtable and for future reference to "assurance", it was felt that the IFAC definition of an "assurance engagement" was helpful. This is: "an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria."

The current position is that there is very little, if any, public assurance on human rights reporting. This may in part be a result of companies not knowing what information to report. Where reporting does take place, it is usually not falling within scope of the work of the assurance providers.

The pilot version of the United Nations Guiding Principles (UNGPs) Reporting Framework, which will be launched in February 2015, now provides clear guidance on the human rights information that it is meaningful and viable for a company to report. The challenge is in determining why and how assurance can be relevant and valuable in relation to that information. The following were identified as reasons how assurance could add value:

1. To date, Regulators have noted that the non-financial reporting in annual reports is often not fair and balanced – moreover, companies endeavour to portray the company in the best light. Assurance could bring comfort to external stakeholders that the reporting is fair and balanced;
2. Senior management and the main Board would gain confidence in the information that they are putting out in the public domain;
3. The assurance process itself can support the company's ongoing work in aligning their practices with the UNGPs; and
4. The assurance provider's recommendations for improvement can help the company to strengthen its human rights policies and processes.

The ultimate value is that an **independent and qualified** third party (the assurance provider) is providing an opinion on company-generated information. There can be great value in this independence, which provides the third line of defence in ensuring that the information reported is robust. The first two lines of defence are:

(i) the day to day risk management processes within the operations; and
(ii) the internal monitoring mechanisms that form part of the finance, HR and other quality functions.

2. The potential users of the Assurance framework

Participants anticipated that the Assurance Framework could be employed in several different ways:

1. It could help companies develop their own internal audit functions to verify the existence and effectiveness of their processes; and
2. It could guide external Assurance Providers in undertaking pre-assurance work ie providing the company with an independent review of its management processes, without a public opinion;
3. It could enable Assurance Providers to understand what is required by way of the assurance process and to develop their own internal methodologies for performing such work;

4. It could enable the Assurance Providers to develop appropriate human rights competencies and skills.

It was felt that the Framework may initially be used more for the first two purposes than for external assurance with a public opinion, although certain jurisdictions already require external assurance. External assurance will likely be provided at a time when the company is comfortable with the first two purposes above.

3. The information being assured

The information being assured could be information on the company's human rights performance included in any of the following documents:

1. Within the non-financial aspects of an annual report;
2. Within a sustainability report; and/or
3. Within an Integrated Report

Participants underlined that the assurance would not be provided on the company's overall human rights performance but would focus on information about the company's policies, processes and performance within the relevant report. The assurance of this information would consider the effectiveness of processes that are being reported on and not just their existence.

4. The different levels of assurance (limited v reasonable)

The pros and cons of limited assurance, in contrast to reasonable assurance, were discussed:

Pros

i. Greater levels of information can be covered through "limited" assurance as it is not subject to as much verification as reasonable assurance;
ii. "Limited" assurance is cheaper due to the smaller sample sizes required to express an opinion;
iii. It may not be possible to reach a "reasonable" opinion because of the qualitative and subjective nature of much of the information reported;
iv. "Limited" assurance can be applied at varying levels depending upon the quality and quantity of evidence collected to support the assurance.

Cons

i. Whilst a "limited" opinion does provide some level of comfort to the user, it may still leave some stakeholders with a lack of confidence in the information reported; and
ii. Given the smaller sample sizes required to express the "limited" opinion, there is a greater probability of abuses being undetected and processes not being as effective as stated.

5. Ways in which the Assurance opinion can deliver greater value

Whilst it was agreed that the "limited" and "reasonable" levels of assurance, as set out in ISAE 3000, provided a good base framework for providing an opinion, there was a shared sense of the opportunity to deliver greater value to the user by thinking more flexibly about what an assurance provider could say, building on some of the practices provided through the AA1000 assurance standard.
It may be possible to deliver a mixed opinion such that different levels of assurance can be applied depending on the information being assured. For example:

- Reasonable assurance relating to actual impacts that have occurred and how the company's processes worked in practice;
- A statement on the robustness of the process through which the company arrived at its decision on the salient human rights on which it is reporting;
- A view on whether the conclusion of those processes – the actual decision on the salient human rights – appears reasonable;
- Confirmation of whether the policies and processes for respecting those salient human rights exist as stated in the company's reporting;
- Reflections on the effectiveness of those policies and processes for respecting the salient human rights, potentially including:
    - information on issues raised with management;
    - feedback sought on stakeholders' experience.

When assuring qualitative metrics it will be key that there is sufficient narrative to fully explain the conclusions disclosed. The output that the assurance provides must demonstrate added value by being insightful and thorough in order to create trust in the reporting.
It should be possible to demonstrate the assurance findings visually. For example, one could build on the kind of "wheel" suggested by PwC in a recent thought piece, using concentric wheels to illustrate how full and how robust the company's reporting is in relation to its salient risks, policies and governance mechanisms.[1]
There was considerable discussion about the importance of the assurance provider understanding the experience of stakeholders regarding the existence and effectiveness of company processes and building this into his/her reporting. It is important that these stakeholder experiences are captured and aggregated by the assurance provider, as this can then help in directing their professional judgement. These stakeholder experiences may provide an effective direct link between the Reporting and Assurance Frameworks and can bind the two together.

6. Competencies of the assurance provider

One of the major concerns of non-assurance experts at the multi-stakeholder meetings has been whether assurance providers possess the required skills to undertake a human

[1] PWC, 'Inspiring Trust through Insight', 2014. Available at: http://www.pwc.com/gx/en/audit-services/publications/inspiring-trust.jhtml

rights assurance assignment. The overriding quality that an assurance provider must possess is that of independence. Yet competencies related to the subject matter are also critical.

Participants noted that:

- The skills and knowledge required by an assurance provider will vary by engagement;
- Currently few, if any, providers possess all the skills in-house to undertake this kind of assurance;
- The key will be for assurance providers to 'know what they don't know' and bring others into the assurance team with the necessary expertise. This is a process that financial auditors routinely undertake. It should not be foreign to most assurance providers;
- The Assurance Framework can set out how providers should demonstrate the necessary competences within the assurance report. This report might begin by setting out the skills and knowledge represented within the assurance team in order to perform the assurance;
- As accountability structures develop, they might have oversight of whether providers meet competence requirements.

7. Oversight of the assurance providers

Since assurance providers will in most cases be funded by the company receiving the assurance, it will be important to ensure that there is adequate oversight and accountability to guarantee their independence and the quality of their work:

- There already exist ethical standards that could apply for the behaviours and competencies of the assurance provider;
- An accreditation scheme, overseen by a professional body, could be introduced in light of the complexity and multi-disciplinary nature of human rights assurance; and
- Any accreditation or similar process should be open to all providers, not just professional firms.

If there is to be a separate oversight body, it is important that its compilation includes parties from all stakeholders including governments, business, NGOs and investors.

Next steps

The project team welcomed the stimulating and valuable conversation. It undertook to update its draft Assurance Vision paper based on the discussions, with a view to publishing it for open consultation in early 2015. Further progress towards drafting the Assurance Framework will be informed by additional practitioner consultations as well as broader stakeholder inputs.