

DEVELOPING GLOBAL STANDARDS FOR THE REPORTING AND ASSURANCE OF COMPANY ALIGNMENT WITH THE UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

A discussion paper issued by Mazars and Shift

Comments from ACCA to Mazars and Shift
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Further information about ACCA's comments on the matters discussed here can be sent to:

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Thank you for sending us a copy of your discussion paper on the above. We understand that later in the year there will be a more formal consultation on the proposed standards and we will be pleased to take part in that exercise in due course. We have set out some initial reactions to the current plans.

SUMMARY

ACCA sees the area of human rights policy and reporting as a natural component of good corporate social responsibility practice. Reputational issues are of great importance to many consumers and investors, and the way that a company treats its human stakeholders is very likely to have a bearing on its reputation and by extension its viability as a business.

Policies and reporting practices that ignore relevant human rights issues are likely to render any company's CSR practices incomplete, in the eyes of at least some stakeholders. Attention to this area may in any case be material and necessary for the achievement of an integrated approach to corporate stewardship and reporting. It is also clear to us that companies will, in due course, need new guidance on human rights-orientated reporting given the new responsibilities that are being imposed on large companies in the UK and the EU. For these reasons we welcome the work being done on this project.

The main issue that we would raise at this stage relates to the governance of the new standards regime. While the process for the development of the standards appears appropriately multi-stakeholder, the ultimate credibility of the standards will depend on the formal involvement of a spectrum of stakeholders in their on-going governance. This should therefore be explicitly included in the consultation process.

We also suggest there should be interaction with IAASB at an early stage on the assurance issues, and we would be happy to facilitate this.

SPECIFIC COMMENTS

General overview

The paper is very well constructed, easy to follow, and the arrangement of the different sections will make sense to users. The major issue that we would raise at this stage relates to the proposed governance of the new standards regime. While the process for the development of the standards looks appropriately multi-stakeholder, the ultimate credibility of the standards will depend on the

formal involvement of a wide spectrum of stakeholders in their on-going governance. This aspect should therefore be explicitly included in the consultation process – not only to consider what the best approach might be but also to ensure that that approach is acceptable to the stakeholders who will have contributed to the form and content of the standards.

Scope

The proposed standard goes further than guiding companies on how to carry out their reporting obligations under, eg, the proposed EU nonfinancial reporting directive and the UK's new statutory rules on narrative reporting, which both contain a materiality threshold linked to the usefulness of disclosed information to the user. The assertion in section 3.2 that a company's failure to meet its responsibility for human rights should always be 'material' is not necessarily consistent with the established thresholds for corporate reporting purposes. The proposed standard is a more wide ranging template to comply with the UN guiding principles on human rights. Clearly, companies that wish to promote their compliance with best practice may producing a statement under the proposed standards as well as more focused information to comply with more limited statutory requirements such as those mentioned above. In the spirit of optimising the rate of adoption of the proposed standard, there may be merit in framing it so that it more easily facilitates application for statutory purposes.

Definitional issues

The term 'human rights' is defined in the document by cross-reference to the UN guiding principles. It will be helpful for the proposed standards to carry an explicit definition of what is intended by this term. A phrase which is used more frequently in the discussion paper than 'human rights' is 'respect for human rights': this term is not defined, and it would be helpful to do so, or at least to provide an interpretation of what is expected of companies showing 'respect'.

The term 'human rights risks' needs to be articulated more clearly. Are they risks to the company or risks to the individuals affected? There is also a suggestion that companies have reporting obligations to 'affected stakeholders'. This needs to be framed carefully if the company and its assurer are not to assume a duty of care and therefore liability for the content of their reports.

Indicators

The nature of indicators used to assess actual human rights impacts is a crucial and difficult area. We suggest that the consultation process should expressly seek views on how these indicators can best be formulated.

We note that there is no reference in the document to management's human rights disclosures and indicators that are already recommended by GRI G3 and G4 and query why that is so. The document does refer occasionally to sustainability reports but appears to regard the human rights report as one that needs to be wholly separate. The potential for human rights information consistent with the UN principles to be presented in a wider scope report, including in due course within an integrated report, should also be considered.

Content

Appendix B has a disproportionate emphasis on assurance elements and compared to reporting matters. We also suggest that the proposed standard should keep a strong focus on its remit and caution against the inclusion of encouragements for companies to stray into additional reporting areas, such as in section 2.4, where the document states that 'companies may also wish to include information about [inter alia] its efforts to promote the sustainable development of poor communities'.

Materiality

Sections 3.1 and 3.2 refer to a series of related concepts – scoping materiality, material weakness and material mis-statements or omissions. We suggest that the proposed standards require a tighter framework for this key area. We also suggest early collaboration with the various standard-setting groups such as IASB, IAASB, IIRC that have authoritative material in this area.

Assurance

We suggest that more detail should be provided on the proposed independence of assurance providers. It may be helpful to use the concept of 'impartiality towards stakeholders' in addition to that of 'independence'.

A further point which could be given more emphasis is that the skills and expertise that are appropriate for providing assurance on human rights information may be different from those for the audit of financial statements.

Page 8 notes that there has been a "general decrease in confidence in the benefits of auditing" [in the human rights arena] and "a decrease in confidence in the information contained in the front end of annual reports, or in sustainability reports". These assertions should be supported by evidence.

In section 3.2, the document proposes that the assurance standard sets out the criteria to consider when determining whether to undertake testing and when

determining the size of a testing sample. Where practicable, we would suggest that the standard makes cross-reference to appropriate ISAs or ISAEs.

In section 3.5, the document discusses the level of assurance that the assurance provider might provide on human rights reports and recommends that reasonable assurance be aimed for. The level of assurance should be influenced by the demands of the market and should not, arguably, be determined categorically by the standards. If there is credible feedback that stakeholders would value reasonable assurance on this issue, this would stand to be taken into account: otherwise we favour the standard being non-committal on this point and leaving it to the market to decide. In addition, whatever level of assurance is sought, the standards need to be framed in such a way as to make it feasible for the assurance work to be undertaken. Companies will need to comply with practices and procedures that can be independently verified and measured through the process of assurance.

We suggest there should be an interaction with IAASB at an early stage on these assurance issues, and we would be happy to facilitate this. Apart from the issues referred to above, there are other areas in the document (eg materiality and sampling) that would also benefit from such engagement.

Relevance to end-users

Section 6 calls for companies to communicate their human rights impacts to their intended audience. The intended audience will need to be articulated, but assuming that this will include groups like child labourers, discrete groups of individuals and people who do not speak the same language as the company management, the onus to communicate information regarding risks and impacts in ways that are 'accessible' to those persons could amount to a significant challenge for companies. The assurance standard also calls for the company's communication processes to be judged by their timeliness and usefulness – attention will need to be given to how these criteria would be applied for reporting purposes and assessed for assurance purposes.