

INTERNAL

UN GUIDING PRINCIPLES

REPORTING FRAMEWORK

Assurance Guidance on Human Rights Performance and Reporting

an aide-memoire for
INTERNAL AUDITORS

FOREWORDS

Today, companies around the world are increasingly taking action to respect the fundamental dignity of people affected by their business. This expectation, that companies respect human rights, has become the global standard. It is set out in the UN Guiding Principles on Business and Human Rights, which I authored and which were unanimously endorsed by the UN Human Rights Council in 2011.

2015 saw the launch of the UN Guiding Principles Reporting Framework – the first comprehensive framework for companies to report on their implementation of the Guiding Principles. I have been gratified to see the Reporting Framework being applied already by so many businesses to improve both their human rights performance and their reporting.

Of course, the critical question for companies and their stakeholders is what difference this is making in people's lives. As companies improve their processes to reduce human rights risks and impacts, so they need ways of assuring themselves that these processes are having the intended effects. This is where internal auditors have such a critical role to play, providing the company's board with confidence in the organization's understanding and management of human rights risks.

Implementing respect for human rights is not a compliance exercise or a simple question of 'do no harm'; nor is it something to be completed by mere words in policies or phrases in a report. It is about a way of doing business from the top to the bottom of an organization, with the understanding that profits must not come at the expense of people's most basic human dignity.

Internal auditors have a vital role to play in distinguishing a tick-box approach from practices embedded in culture, and in helping companies to embrace the latter. This guidance should be their go-to tool as they do this critical work.

John G. Ruggie

Former Special Representative of the UN Secretary-General for Business and Human Rights

Berthold Beitz Professor in Human Rights and International Affairs, Harvard University Kennedy School of Government

Chair of Shift

The UN Guiding Principles capture the essence of what it means for a business to respect human rights in the twenty-first century. This groundbreaking document shines a light on how the world of commerce is expected to treat those who are the most vulnerable among us.

More recently, the UN Guiding Principles Reporting Framework was created to help organizations report on human rights and to promote accountability and transparency in this arena. It is used by many companies also as a tool to enhance the governance and implementation of human rights risk management systems.

Internal auditing provides assurance that fosters accountability and transparency, and it has done so for centuries, from China's Western Zhou Dynasty circa 1000 B.C. to today's Fortune 500. So, it is no wonder that internal auditing should be viewed as an integral part of efforts to seek accountability on human rights.

Based on The Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), this guide identifies the essential requirements for successfully auditing companies' human rights practices in line with the UN Guiding Principles. This includes having the relevant competencies to take on such an engagement, the proper scope to render accurate assurance, sufficient time to fully investigate, and the skills to engage appropriately with affected human rights stakeholder groups. Moreover, the guidance includes a valuable suite of indicators of effective human rights policies and processes that should inform any engagement in this field.

The UN Guiding Principles empower stakeholders by providing a blueprint for how companies should deal with human rights challenges. The UN Guiding Principles Reporting Framework not only supports accountability and transparency, but also helps companies adopt and ingrain the UN Guiding Principles into their cultures. Internal audit must embrace its role in helping to make this happen, and this guidance equips them to do so.

Richard F. Chambers

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President and CEO, The Institute of Internal Auditors

ABOUT This document provides an aide-memoire for internal auditors within companies, or in firms providing internal audit services to companies, when assessing their human rights performance. Internal audit is often referred to as the ‘third line of defence’ within companies as it seeks to provide independent and objective assurance to the governing body and senior management.

We recommend that users also read the complete assurance guidance, together with the accompanying assurance indicators, which are available at www.ungpreporting.org/assurance. In addition, users may find further helpful guidance in the companion document for company staff preparing public disclosure on human rights, ‘UN Guiding Principles Reporting Framework – Guidance Part I: Strengthening Human Rights Reporting and Performance’ (‘implementation guidance’), available on the same website. All documents reflect the standards set out in the UN Guiding Principles on Business and Human Rights.

A PROFESSIONAL COMPETENCIES

The International Professional Practices Framework (IPPF), issued by the Institute of Internal Auditors Global, sets the competencies required of internal auditors with respect to the undertaking of internal audit assignments. This aide-memoire emphasizes those competencies that are likely to be particularly relevant for the undertaking of an engagement that includes an assessment of human rights performance.

1 Independence and impartiality

The IPPF addresses the requirement for internal auditors to act with independence and impartiality, which is essential to the credibility of any assurance engagement. These principles gain particular importance in the context of human rights assurance processes when being performed by the internal audit function, not least since internal audit may not be assumed to be impartial by people whose human rights are at risk from, or impacted by, the company’s operations and value chain.

2 Specific human rights expertise

Given that the subject matter of human rights is wide-ranging, internal auditors should understand the limits of their knowledge and expertise and ensure that relevant expertise is included in the assurance team from other sources where necessary. Areas of competence that will typically be relevant, in addition to expertise in assurance processes, are:

- expertise in internationally recognized human rights standards
- expertise in the UN Guiding Principles on Business and Human Rights
- expertise in human rights risk assessment
- expertise in human rights issues typically relevant to the company’s industry and operating contexts
- expertise in processes for engaging stakeholders, including vulnerable groups and other stakeholders affected by the company’s business

3 Stakeholder engagement

Internal auditors will need expertise to critically review the company’s understanding of who its stakeholders are with regard to human rights risks and impacts. Where necessary, they may need to conduct their own mapping of stakeholders to ensure no key groups have been omitted that might change the company’s understanding of human rights risks. Particular attention should be paid to the inclusion of groups potentially impacted through the company’s operations or value chain.

Internal auditors also need particular skill sets to engage with stakeholders, most notably with those who may be, or have been, impacted through the company’s operations or value chain, as well as expertise in the geographical and cultural contexts where the engagement will be conducted. Alternatively, they may rely on third-party experts for this aspect of the assurance process.

Cost and other resource constraints may limit the ability of internal auditors to engage extensively with the company’s stakeholders as part of the audit process – in particular, affected stakeholder groups who may be remote from the company’s headquarters. Where this occurs, an assessment will need to be made of the impact of the limitation on the assurance that can be provided. At a minimum, engagement with some informed, policy-level stakeholders from NGO, trade union, academic or other expert backgrounds will be important wherever possible.

B FACTORS OF HEIGHTENED IMPORTANCE FOR INTERNAL AUDIT WHEN ASSESSING HUMAN RIGHTS PERFORMANCE

There are several factors related to the planning and conduct of a human rights internal audit engagement that gain heightened importance due to the particular nature of this subject matter.

1 Suitability of the scope of the assurance process

The scope of the internal audit engagement may be limited, for example, because the requesting party wants only to address one particular risk, monitor one particular site or engage with only specifically identified stakeholders. If so, it is important for the internal auditor to assess whether that limitation would be so far-reaching as to render their conclusions potentially meaningless or misleading. In such cases, the internal auditor should explain to the requesting party the impact of such a limitation and how their conclusion may be compromised as a result. Any limitations on scope should be made clear to, and where material, agreed with the audit committee.

2 Time to gather evidence

The qualitative nature of much of the evidence needed to assure a company's human rights performance depends, in particular, on evidence obtained through observation, inspection, surveys and interviews, and is likely to result in the following:

- more time needed not only to gather and collate the evidence, but also to plan the engagement given increased levels of communication and engagement
- more wide-ranging engagement with stakeholders outside the company than is generally the case for other types of assurance
- enhanced discussions with the requesting party to ensure that there is sufficient time and resources to obtain the evidence necessary to draw robust conclusions

3 Conflicts between local laws and international standards

Under the UN Guiding Principles, where national laws fall below international human rights standards, companies are expected to abide by both; and where applicable laws are in conflict with international human rights standards, companies are expected to honour the principles of the international standards to the greatest extent possible in the circumstances, and to be able to demonstrate their efforts in this regard.

Internal auditors should, therefore, be alert to discrepancies between applicable national laws and international human rights standards, and ensure that it is the higher standards – typically, the international standards – that set the reference point for the engagement. Where this is not the case, the internal auditor should bring this to the attention of the management.

4 Professional scepticism and judgment

Professional scepticism and judgment are key attributes of any internal auditor and are defined in the IPPF standards. Given the qualitative nature of much human rights information, assurance processes in this field inevitably involve high levels of individual judgment, making these skills particularly important to arrive at robust expert conclusions by:

- testing qualitative and subjective information, and
- seeking corroboration of key assertions

B

5 Review of salient human rights issues

The UN Guiding Principles make clear that when companies need to prioritize their efforts to address human rights risks:

- They should prioritize those impacts on people's human rights that would be most severe: the company's salient human rights issues, as set out in the UN Guiding Principles Reporting Framework.
- Their formal reporting should focus on operations and operating contexts that pose risks of severe human rights impacts.

Internal auditors should, therefore, assess whether the human rights issues on which the company is focusing its management efforts could reasonably be considered its salient human rights issues. Doing so will enable the auditor to:

- identify any potential weaknesses in the company's existing risk assessment processes that require further scrutiny
- identify any human rights risks and impacts that may be under-recognized and require further scrutiny

6 Engagement with external stakeholders

Broadly speaking, there are three types of stakeholder most relevant to human rights issues:

- directly affected stakeholders (and their legitimate representatives)
- proxies for affected stakeholders
- human rights experts

Due attention should be paid to the different types of insight that different stakeholders can offer. When interviewing stakeholders, the internal auditor should:

- provide sufficient protection to interviewees such that information they share cannot be attributed back to them unless they freely and expressly agree otherwise
- be clear about their role when interviewing stakeholders; that it is about obtaining evidence, not expressing a conclusion on the company other than in its final report or statement

The AA1000 Stakeholder Engagement Standard contains valuable additional guidance on engagement with external stakeholders.

7 Retention of evidence

Since human rights assurance processes are likely to involve greater levels of interviews, observation and inspection than is the case for many other subjects, particular attention needs to be paid to how this will be documented. The internal auditor should ensure that they have appropriate means by which to retain this evidence in a manner that:

- respects individuals' confidentiality
- meets their human right to privacy and related legal requirements

8

Subsequent events

Human rights assurance may require a longer period between the end of the evidence-gathering phase and the completion of the internal audit conclusion than other such assurance processes.

Prior to approval of the conclusion, the internal auditor should take steps to ensure that:

- no further evidence has arisen that would alter the conclusion, and that
- no severe negative impacts have taken place which, if omitted from the conclusion, could render it misleading

If the internal auditor identifies a severe impact during their review which potentially falls outside of their scope, they should discuss their findings with management.



INTERNAL AUDIT CONCLUSIONS

Content of internal audit conclusions

Sections 2400 to 2600 of the IPPF set out a number of requirements regarding the content of an internal audit conclusion. Conclusions for internal management alone can be tailored to the specific needs of the company, and it is recommended that the conclusion include the following among its principal headings:

- **The human rights competencies of the assurance providers** conducting the audit/assessment process
- **The stakeholders/stakeholder groups engaged** in the course of the process
- **The appropriateness and effectiveness of the company's policies and processes** that address the human rights issues included in the scope of the engagement
- **Areas of particular progress** in the company's performance
- **Areas of weakness** in the company's performance
- **Recommendations for improvement**

BENEFITS OF A VISUAL REPRESENTATION OF THE INTERNAL AUDIT CONCLUSION

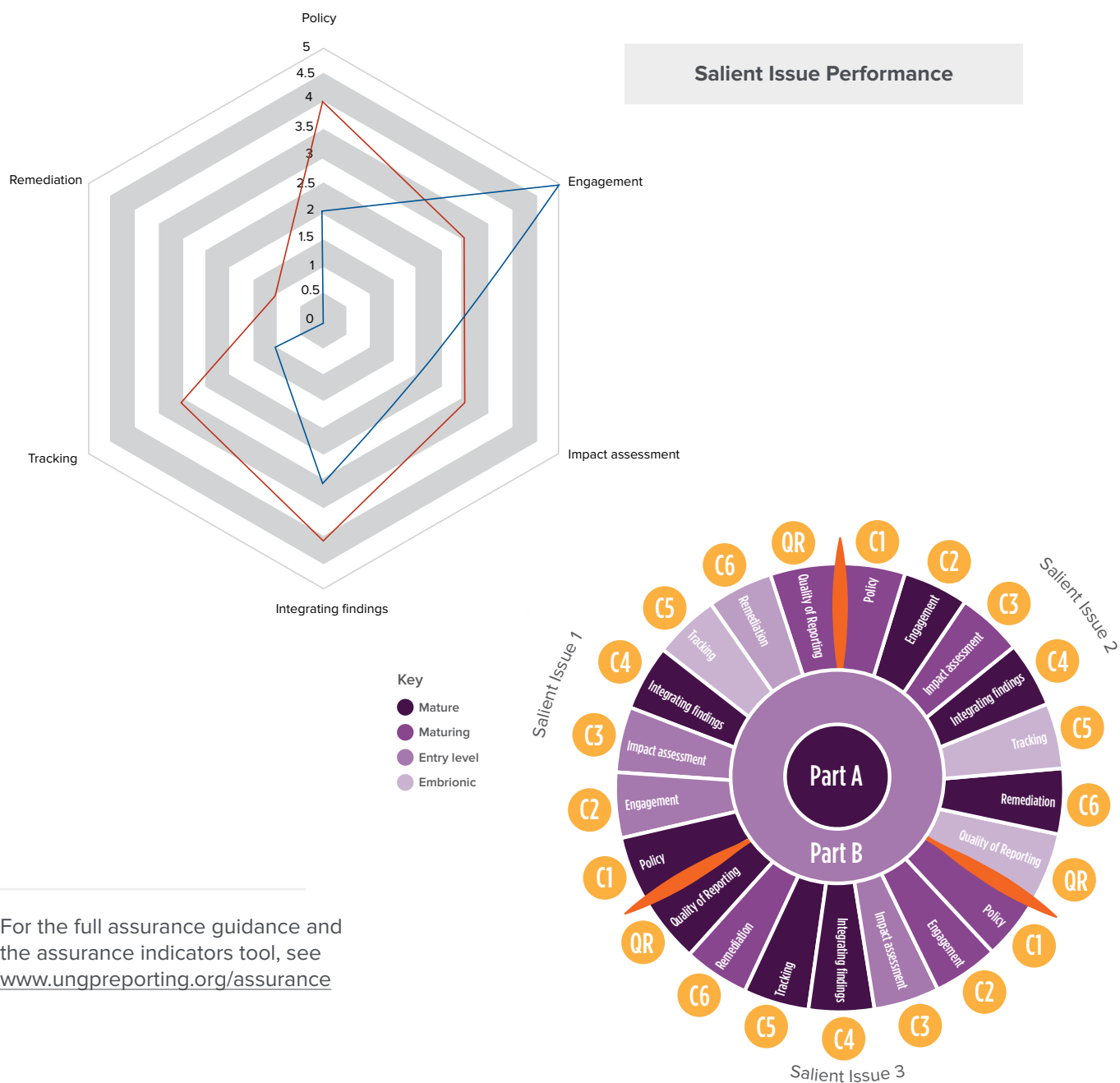
The narrative commentary provided by the internal auditor will help build a picture of the company's progress in its human rights performance. A visual representation will enable the reader, at a glance, to gain an overview of the company's progress as well as areas on which improvement is needed.

In particular, it can provide the following benefits:

- ➔ making year-on-year comparability that much clearer
- ➔ facilitating site-by-site or country-by-country comparability
- ➔ enabling the reader to assess, at a glance, the position of the company
- ➔ enabling the company to see where it needs to concentrate its efforts in the future

However, it is important to recognize that a visual representation is a simplification of more complex and nuanced findings and, therefore, needs to be placed clearly in the context of the narrative.

ILLUSTRATIVE VISUAL REPRESENTATION OF CONCLUSIONS



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an initiative of:

Shift

Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. Shift's global team facilitates dialogue, builds capacity and develops new approaches with companies, government, civil society organizations and international institutions to bring about a world in which business gets done with respect for people's fundamental welfare and dignity. Shift is a non-profit, mission-driven organization.

Shift was established following the 2011 unanimous endorsement of the Guiding Principles by the UN Human Rights Council, which marked the successful conclusion of the mandate of the Special Representative of the UN Secretary-General for Business and Human Rights, Professor John Ruggie. Shift's founders were part of Professor Ruggie's core advisory team that helped develop the Guiding Principles. Professor Ruggie is the Chair of Shift's Board of Trustees.

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