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

A DISCUSSION PAPER

Officially Supported by the UN Working Group on Business and Human Rights

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1 INTRODUCTION

This paper describes a project to develop a twin set of standards for human rights reporting and assurance:

1. A standard for companies to issue a Human Rights Statement that states the extent to which their internal policies and processes align with the UN Guiding Principles on Business and Human Rights (the “Reporting Standard”); and

2. A standard for independent external human rights assurance providers to provide a Human Rights Assurance that attests that the company’s Human Rights Statement is a fair representation (the “Assurance Standard”).

The project is led by Mazars, a global auditing and accounting firm and Shift, a non-profit centre on business and human rights. It is officially supported by the UN Working Group on Business and Human Rights. The paper sets out a range of issues on which the Mazars-Shift Project Team (the “Project Team”) seeks early consultation with stakeholders, since they raise questions that are fundamental to ensuring that the Reporting and Assurance Standards can add value to existing initiatives in the business and human rights arena, as well as non-financial reporting and assurance.

This section of the paper sets out background to the project regarding (1) the UN Guiding Principles on Business and Human Rights, (2) the Mazars/Shift project, (3) how the reporting and assurance standards will work together, (4) understanding alignment with the Guiding Principles as a journey, and (5) human rights assurance and non-financial reporting initiatives. Section 2 of the paper focuses on key issues with regard to the Reporting Standard, and section 3 sets out some key issues with regard to the Assurance Standard. Section 4 reiterates the main questions for the first phase of consultation, and the process for submitting views. Annex A lists definitions of key terms and concepts as they are used in the discussion paper and Annex B sets out elements of the Guiding Principles that it is proposed should be covered in the Reporting and Assurance Standards (the “Standards”).

1.1 The UN Guiding Principles on Business and Human Rights

In June 2011, following six years of multi-stakeholder consultation and research, the UN Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights (the “Guiding Principles”) authored by the Special Representative of the UN Secretary-General for Business and Human Rights, Harvard Kennedy School Professor John Ruggie (the “Special Representative”).

The Guiding Principles establish the authoritative global standard on the respective roles of business and governments for ensuring business respect for human rights. They have been incorporated or reflected in other global standards, such as the OECD Guidelines for Multinational Enterprises, the ISO 26000 Guidance Standard on Social Responsibility, the revised Sustainability Framework and Performance Standards of the International Finance Corporation, and the European Commission’s 2011 Communication on Corporate Social Responsibility. In addition, the Guiding Principles are being
increasingly reflected in legal requirements\(^1\) and in enforceable agreements between different contracting parties.

The Guiding Principles implement the 2008 UN “Protect, Respect, and Remedy” Framework on business and human rights, developed by the Special Representative (the “Framework”). The Framework rests upon three interrelated and mutually supporting pillars:

- The **state duty to protect** against human rights abuses by third parties, including business, through appropriate policies, legislation, regulations and adjudication;
- The **corporate responsibility to respect** human rights, meaning to act with due diligence to avoid infringing on the rights of others and address adverse impacts with which they are involved; and
- The need for **greater access by victims to effective remedy**, both judicial and non-judicial.

Under the second pillar—the corporate responsibility to respect—the Guiding Principles require companies to know and show that they are respecting human rights by developing policies and processes for managing human rights, of which the necessary components are:

1. A high-level **policy commitment** to respect human rights, supported by operational-level policies, processes, training and incentive structures that embed the company’s commitment from the top of the organization to the bottom (Guiding Principle 16).

2. A process of **human rights due diligence** under which the company:
   - (a) assesses the actual and potential impacts on human rights arising from its own activities and through its business relationships,
   - (b) integrates the findings from these assessments and takes action to prevent or mitigate adverse impacts,
   - (c) tracks the effectiveness of the efforts taken to address human rights impacts, and
   - (d) communicates these efforts to affected stakeholders (Guiding Principles 17 – 21).

3. Providing, or cooperating in, legitimate processes to remediate human rights harms that the company has caused or contributed to, including, where appropriate, through effective operational-level grievance mechanisms (Guiding Principles 22, 29 and 31).

The corporate responsibility to respect human rights is the baseline expectation of all companies, regardless of their size, sector, ownership, structure or location. It requires that companies avoid infringing on the human rights of others, both through their own operations and through their business relationships. It requires companies to take appropriate action to avoid causing or contributing to human rights impacts, and to seek to prevent or mitigate the risk of adverse human rights impacts being directly linked to their operations, goods and services through their business relationships, including entities in their value chain and relevant governmental institutions. Although corporate philanthropy and similar actions that support and protect human rights are highly desirable and commendable, they do not offset adverse human rights impacts, and do not discharge a company’s responsibility to have in place the necessary policies and processes to identify and address those impacts.

1.2 The Mazars/Shift Project

The UN “Protect, Respect, and Remedy” Framework describes what companies are required to do: namely, respect human rights throughout their business operations, and the UN Guiding Principles on Business and Human Rights detail how companies can know and show that they respect human rights in practice. However, there is yet no global and widely accepted process for companies to demonstrate whether their policies and processes are indeed aligned with the UN Guiding Principles and therefore capable of meeting their responsibility to respect human rights.

To fill this gap, Mazars and Shift have launched a project to design a global and widely accepted process for companies to assure their stakeholders that they are meeting their responsibility to respect human rights in practice. Mazars is an international organisation specialising in audit, advisory, accounting and tax services with experience of providing human rights assurance to large corporates. Shift is an independent, non-profit centre for business and human rights practice, staffed by a team that was centrally involved in shaping and writing the Guiding Principles, and chaired by their author, Professor Ruggie. Shift helps businesses, governments and their stakeholders put the Guiding Principles into practice.

The project will be grounded in an extensive and rigorous process of multi-stakeholder consultation. In-person consultations will be located within the ASEAN (Association of South-East Asian Nations) region. With its fast-growing domestic companies and foreign investment, but also concerns and conflicts around business-related human rights impacts, the ASEAN region offers an ideal focal area within which to develop and pilot these Standards. Consultations will include representatives of companies, civil society organizations, governments, stock exchanges, institutional investors, inter-governmental organizations, and professional associations operating in the ASEAN...
region. This includes ASEAN-based companies as well as companies headquartered elsewhere and operating in the ASEAN region. The Human Rights Resource Centre for ASEAN is the project’s primary research and outreach partner.

While these Standards are being developed initially in the context of the ASEAN region, the objective is that they be applicable to and used in all other regions as well. Therefore, input from all interested stakeholders globally is sought and welcomed.

The first in-person consultations will be held in the ASEAN region in June 2013. This discussion paper will also be posted on-line for broader public comment for a two-month period, from May 1 to July 1, 2013. The Project Team invites all interested parties to provide comments and looks forward to an active dialogue. This will be critical to inform the drafting process of the Standards, of which preliminary drafts will be available in November 2013, with further consultations on their content continuing over a period of 12 months.

1.3 How the Reporting and Assurance Standards Will Work Together

The proposed Reporting and Assurance Standards are intended to work together to enable companies to show the extent to which they have effectively implemented the requirements of the Guiding Principles within their business. The foundation for both Standards is the UN Guiding Principles, which set the extent and the limits of what is expected of companies with regard to respect for human rights.

Under the Reporting Standard, the company would prepare a Human Rights Statement (the “Statement”) that provides an overview of its key human rights policies and processes throughout a given period and describes the extent to which these policies and processes are aligned with the Guiding Principles. The company’s senior management would attest to the Statement’s validity, as they would to the company’s annual financial statement.

Under the Assurance Standard, the company would engage a competent and independent human rights assurance provider to confirm that the company’s Human Rights Statement is a fair representation (“Assurance”). The Assurance review would assess the existence, suitability and effectiveness of the policies and processes that make up the company’s human rights management system, as judged against the Guiding Principles. These would be tested against a sample of the company’s actions to identify and address certain specific significant human rights risks and impacts. The Assurance review would be analogous to a financial auditor’s assurance with respect to the effectiveness of the internal control systems that underlie a company’s financial reporting.

The relationship among the Guiding Principles, the Reporting Standard and the Assurance Standard is seen in the following graphic:
As in other such reporting and assurance processes, it is expected that there would be dialogue between the company and the assurance provider to enable the company to make adjustments to its Statement to correct identified gaps. Both the Statement and the Assurance report would become public at the same time, and would cover the same 12-month period. This process could then be repeated in subsequent years, ideally on an annual basis, so as to enable the company and its stakeholders to track progress made on the implementation of the Guiding Principles.

1.4 Understanding Alignment with the Guiding Principles as a Journey

Although the Statement and Assurance review would provide an overview of the existence, suitability and effectiveness of a company’s human rights management systems throughout a given period, implementing the Guiding Principles is a journey. It takes considerable time and effort—particularly for a large or multinational company—to put all the necessary elements in place and embed them in the company’s operations. Moreover, for any company operating in complex and changing environments and through multiple relationships, policies and processes will need to adapt over time, and new ones may be needed to meet emerging challenges.

The Standards for the Statement and the Assurance review should reflect this reality. The primary purpose of the Statement, used in conjunction with the Assurance review, would be to enable a company to chart the progress made in its human rights management system over time. The company’s first Statement and Assurance review would enable a company to establish a baseline for its alignment with the Guiding Principles. It would provide an overview of the extent to which the company has already integrated elements of the Guiding Principles into its business, the remaining
gaps in implementation and plans to address them over time. Subsequent Statements and Assurance reviews would enable the company to track its progress towards full alignment and assist the company in that journey. In addition, the Statement and Assurance report would provide transparency and credibility to the work that many companies are undertaking to implement the Guiding Principles and thereby reduce the risk of human rights impacts.

1.5 Human Rights Assurance and Non-Financial Reporting Initiatives

Processes that assure the effectiveness of a company’s internal controls are well known in financial reporting and risk management. Using a similar approach to assess a company’s alignment with the UN Guiding Principles can provide significant additional value.

**Human Rights Assurance**

In the human rights arena, there has been a general decrease of confidence in the benefits of auditing, due in part to the association of audits with tick-box checks or certifications of farms and factories in global supply chains. These have often proven to be ineffective in generating trustworthy information and supporting sustained improvements over time. Recent events in particular have shown that there are issues with current social auditing regimes. For instance, significant worker fatalities have occurred in factories that had either been recently certified as meeting labor rights and working condition standards, or had been ruled unsafe but continued to receive contracts for goods destined for major brands and retailers.

In parallel, there has also been a decrease in confidence in the information contained in the front end of annual reports, or in sustainability reports, where companies can choose to report on their human rights performance. Companies select the information they wish to disclose in these reports, and subject them to varying degrees of assurance. Much of the social content, including on human rights, is written to showcase the company’s philanthropic or ‘social investment’ projects and is often not subject to appropriate external assurance. This reduces the credibility and usefulness of such disclosures in the eyes of other businesses, public bodies, investors, governments, market regulators, non-governmental organizations (“NGOs”), communities, workers and other stakeholders.

To date, there is no accepted process for a company to report on its overall alignment with the Guiding Principles, or for an independent and competent assurance provider to

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attest to the validity of this report. The intent of this project is to address this gap by creating an effective, independent, and widely respected process for reporting on and assuring a company’s human rights policies and processes. This should provide credible, comparable and meaningful information that can help both a company’s management and Board of Directors on the one hand, and its external stakeholders on the other, track the company’s progress in meeting its responsibility to respect human rights.

**Non-Financial Reporting Initiatives**

The Reporting and Assurance Standards would fit under the broad umbrella of non-financial reporting. They are intended to complement existing and on-going initiatives in this field. The company’s Statement and Assurance report could reside within an annual report but outside the main body of accounts on which the external financial auditor is providing assurance. Alternatively, they could be incorporated in a broader sustainability report, or be self-standing. Most significantly, they could contribute to, and become a part of, integrated reporting through which companies communicate holistically on what may impact the sustainable value of the business.

It is envisaged that the Standards may add particular value to non-financial reporting in the following areas:

- They would provide greater clarity on the capacity of a company’s management systems to assess and address its human rights risks and impacts, and independent assurance that the Statement is a fair representation. This would enable the company to know and show, with much greater certainty than previously, the extent to which it is respecting human rights;

- The Standards would enable a forward-looking focus on the ability of a company’s management systems to address effectively the risk of future impacts on human rights in connection with its operations, products or services. This would go beyond a focus on identifying past or current impacts to provide greater predictive capacity of a company’s ability to meet its responsibility to respect human rights;

- In line with the UN Guiding Principles, both the Statement and the Assurance review would consider risk not just from the perspective of the company but also from the perspective of those potentially impacted;

- The Human Rights Statement would provide a holistic overview of the company’s policies and processes for managing human rights risks, rather than selected indicators chosen by the company;

- At the same time, recognizing that implementation of the Guiding Principles takes considerable time and effort, and that a company’s business partners as well as governments have their own distinct responsibilities and duties for human rights, the Standards would focus expectations on continuous improvement, rather than there being no human rights challenges; and
• The Assurance process would require a number of weeks or months to conduct, exploring not just what policies and processes a company has on paper, but how well they are embedded within the company’s daily operations, decision-making and corporate culture, and how effective they are in practice.

2  KEY ISSUES WITH REGARD TO THE REPORTING STANDARD

The following section sets out preliminary issues for stakeholder consultation relating to the Standard for the Human Rights Statement. These issues relate to (1) the content of the Human Rights Statement, (2) the identification and assessment of salient human rights risks, (3) public disclosure of how specific risks or impacts are addressed, and (4) additional information in the Statement.

2.1  The Content of the Human Rights Statement: Reporting on Human Rights Policies and Processes

The UN Guiding Principles describe the policies and processes that companies must put in place to know and show that they are respecting human rights. Accordingly, demonstrating alignment with the Guiding Principles will entail a Statement by the company on its general policies, processes, and practices for respecting human rights through its own activities and its business relationships. The company’s senior management would attest to the Statement, in the same way as they would attest to the validity of a company’s financial statement.

The Statement would provide an overview of the company’s alignment with the key components of the corporate responsibility to respect human rights: (a) its policy commitment; (b) its human rights due diligence processes (assessing, integrating and acting, tracking, and communicating); and (c) its remediation processes. Annex B provides an indicative list of the elements that it is envisaged would be covered under the Reporting and Assurance Standard with regard to each component of the Guiding Principles.

The company could decide to prepare a Statement that covers its entire operations, or decide instead to start the journey of alignment by reporting on one or several of its business units and/or subsidiaries. The company could also choose to focus its reporting on one or several of the areas in which adverse impacts to human rights may occur. These areas would be described in the Reporting Standard, and are further described below in section 2.2.

Views would be welcomed regarding both the proposed elements for inclusion in the Reporting and Assurance Standards, set out in Annex B, and on the possibility that companies may limit a Statement to certain aspects of their operations.

2.2  Identification and Assessment of Salient Human Rights Risks

Guiding Principle 11 notes that businesses “can have an impact on virtually the entire spectrum of internationally recognized human rights”, which are “understood at a
minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.” These impacts may occur in any of the following (often overlapping) areas of a company’s operations:

1. Impacts on company workers, including agency workers (employment and workplace conditions);
2. Impacts on supply chain workers, including agency workers (employment and workplace conditions);
3. Impacts on local communities and the public (including the impact of the environment on communities);
4. Impacts relating to products and services; and
5. Impacts relating to security (i.e., the impact of a company’s security arrangements).

Guiding Principle 18 provides that companies should identify and assess any actual or potential human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. However, companies should focus particularly on those risks that are most “salient” with regard to their own operations, relationships and operating contexts.

As defined by the UN Office of the High Commissioner for Human Rights (“OHCHR”) in its 2011 Interpretive Guide to the Corporate Responsibility to Respect Human Rights, the most salient human rights risks for a company are those that stand out as being most at risk and on which the company will need to concentrate its primary efforts. The salient human rights risks will vary for each company, depending on its sector and operating context. They may vary over time. Furthermore, “engagement with local stakeholders will often enable a company to better understand the context in which it operates.”

For instance, “one of the most typical risks for a toy or footwear company will be involvement in labour rights abuses through its supply chain. For a beverage or food company, typical risks are both labour rights and impact on water and/or land use and consumer health. For a pharmaceutical company, the right to health will be particularly

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6 Interpretive Guide at p. 8.

7 Id. at p. 21.
salient, as will freedom of expression and the right to privacy for an information and communications technology enterprise.\textsuperscript{8}

It is proposed that companies should include in their Human Rights Statement a description of their current salient human rights risks. The Statement could also describe any additional policies or processes for addressing these risks above and beyond the general processes already described (see section 2.1).

Views on the proposal to include information about salient human rights risks, as well as general human rights policies and processes, in the Statement would be welcomed.

2.3 Public Disclosure of How Specific Risks or Impacts Are Addressed

Transparency is critical to establishing and maintaining trust between a company and its stakeholders. Guiding Principle 21 therefore requires that companies be prepared to communicate to potentially impacted stakeholders how they address their human rights impacts, particularly when these stakeholders raise concerns. Any communications should be accessible to the company’s intended audience, and should provide sufficient information to evaluate the adequacy of the company’s response to the impact. Relevant information about a company’s policies and processes for communication would form part of its broader description of its due diligence processes in the Statement (see section 2.1).

In addition, Guiding Principle 21 requires that those companies whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them. “Severity” refers to an impact’s “scale, scope and irremediable character” (Guiding Principle 14). This means the gravity of the impact (its scale), the number of individuals impacted (its scope), and whether or not it is possible to restore those impacted to their situation before the impact (its (ir)remediable character). Consistent with Guiding Principle 21, the discussion of how risks of severe impacts are addressed must be sufficient to enable stakeholders to address the adequacy of the company’s response.

This additional requirement goes beyond reporting on the company’s general human rights risk management and communication processes to include reporting of specific processes for addressing those potential impacts that would rise to the level of being “severe.” This may include information on how actual “severe” impacts have been addressed in practice, such as a spill of pollutants or the discovery of child labour in a supply chain. At the same time, Guiding Principle 21 does not require the company to publicly disclose all of its adverse impacts on human rights. Nor does it require the company to disclose information that would pose risks to affected stakeholders, personnel or to the legitimate requirements of commercial confidentiality, such as information that is legally protected against disclosure to third parties.

Views on the degree of disclosure about how the company addresses potential or actual severe impacts in the Statement would be welcomed.

\textsuperscript{8} Id. at p. 28.
2.4 Additional Information in the Human Rights Statement

The company may wish to include additional information in its Human Rights Statement to provide further public evidence of its efforts to meet its responsibility to respect human rights under the Guiding Principles. For instance it may wish to include information about its individual suppliers (as some leading companies now do), or how it has handled certain specific impacts or risks, beyond the level of disclosure required under the Guiding Principles. It may wish to include specific examples of how it has exercised or enhanced its leverage to mitigate human rights risks in order to support its statement about its general approaches in this regard. This is typically information that the assurance provider will review as evidence of whether the company’s policies and processes are accurately reported and effective, but which does not have to be set out in the Statement. While not required, this additional disclosure would be welcome.

A company may also wish to include information about its efforts to promote the sustainable development of poor communities, or its corporate philanthropic response to natural disasters, where this is not related to the mitigation of identified human rights risks or impacts. While these activities do not offset the company’s responsibility to avoid infringing on human rights, they are also relevant and of potential interest to stakeholders. They would not necessarily, however, form part of the scope of the Assurance review under the Assurance Standard. Of course, any assurance provider could agree to provide additional assurance of these parts of a statement, using another applicable assurance standard.

Views on the inclusion of additional matters in the Human Rights Statement, beyond the baseline requirements proposed in sections 2.1, 2.2 and 2.3, would be welcomed.

3. KEY ISSUES WITH REGARD TO THE ASSURANCE STANDARD

This section sets out preliminary issues for stakeholder consultation relating to the Assurance Standard. These include (1) determining the scope of the Assurance review, (2) materiality for items to be included in the Human Rights Statement, (3) sources of evidence for the Assurance review, (4) findings not included in the public Assurance report, (5) levels of assurance, and (6) the competence and independence of assurance providers.

3.1. Determining the Scope of the Assurance review

The Assurance review is not intended to be an exhaustive assessment of all of the company’s processes in place that are intended to reduce the risk of an adverse human rights impact.

As part of the assurance process, the assurance provider will need to undertake three primary tasks:

a. It will need to confirm if the salient human rights risks identified by the company fairly represent the human rights on which the company as a whole is most likely
to have an adverse human rights impact;
b. With regard to those salient human rights risks, it will assess the company’s key processes, to conclude whether they are suitable and effective in practice. This will require an assessment of numerous areas of the business where these risks and impacts may arise; and
c. It will need to assess those other risks which may not be salient but which will potentially have a severe human rights impact.

For example, in a company with tens of thousands of suppliers, the assurance provider will need to determine the effectiveness of the company’s policies and processes for addressing salient human rights risks in its supply chain. However, it is not intended that the Assurance Standard will propose a statistical methodology for determining the number of suppliers (in this example) to be reviewed. This should be left to the sound judgment and methodology of individual assurance providers. However, it is proposed that the Assurance Standard should set out:

a. the criteria to consider when determining whether to undertake testing; and
b. the criteria to consider when determining the size of a testing sample.

These criteria should include:

• location (based on political, regulatory, rule of law, environment, susceptibility to corruption);
• the industry;
• the product or service;
• past performance of a business partner; and
• any vulnerable groups who may be affected.

Collectively, these criteria would define what is material for purposes of the assurance’s scope (“Scoping Materiality”).

It is anticipated that the assurance provider will fully document (for its files) the approach it has taken to determine Scoping Materiality, including how the above criteria have influenced its decision making on the size and location of the sample.

Views would be welcome on whether this is an appropriate approach for assessing Scoping Materiality and any other general factors that should be considered.

3.2. Materiality for Items to be Included in the Human Rights Statement

The Guiding Principles now establish the authoritative standard for enabling and ensuring business respect for human rights. They have become the convergence point for global standards in this field. Accordingly, it is suggested that a company's failure to meet its responsibility to respect human rights is “material” for all of its stakeholders—including investors and rights-holders.

The assurance process will therefore consider whether there are any Material Weaknesses in the company’s processes for addressing human rights risks and impacts. A ‘Material Weakness’ would include a deficiency, combination of deficiencies, or
systemic failure, that is likely to prevent the company from identifying or addressing:

a. its salient human rights risks; or
b. any severe human rights risks or impacts connected to its operations, products or services.

The Assurance Provider would raise with the company any Material Weakness it identifies, so that the company can update its Statement to accurately reflect its progress towards implementing the Guiding Principles. The Assurance Provider would identify any Material Misstatement or Omission in the company’s final (and, where relevant, updated) Human Rights Statement. A Material Misstatement or Omission is one that would significantly misrepresent the organisation to its stakeholders, and thereby potentially influence incorrectly their conclusions, decisions or actions. It would include any Material Weakness that remains inadequately reflected in the final Statement’s description of the company’s progress towards implementing the Guiding Principles.

Views would be welcome on these proposed definitions of ‘Material Weakness’ and ‘Material Misstatement or Omission.’

3.3. Sources of Evidence for the Assurance Review

The Assurance review should be based on relevant and credible evidence, such as interviews, observations, testing including sampling, and documentation. The starting point should be a thorough understanding of the human rights risks posed by the company’s activities and business relationships (e.g., value chain, joint ventures, etc.). This will form the basis for identifying and examining the evidence that is relevant to the Assurance.

The assurance provider cannot analyse every area in which the company may potentially impact human rights. Internal controls to manage these salient risks will be the primary focus of the assurance process. Accurate identification of the company’s salient human rights risks, based on such factors as company sector, operating context and types of business relationship, is therefore critical. The assurance provider will analyse the key processes for identifying the company’s salient human rights risks, before then assessing the additional processes for managing those specific risks.

The assurance provider will also need to assess, on a sample basis, specific human rights impacts with which the company has been, or is at risk of being, involved and how they have been addressed. These will focus predominantly on a sampling of impacts that fall within the scope of the “salient human rights risks.” However, they will also include a sampling of actual and potential severe human rights impacts that fall outside the scope of the “salient human rights risks.”

The processes of looking at internal controls will involve rigorous scrutiny of the quality of company processes, and not just the fact that the processes exist. This will include assessing the effectiveness of company processes relating to stakeholder consultation
and would in many contexts extend to reviewing the quality of relationships between companies and the key stakeholder groups who may be impacted by their operations.

In addition, it is imperative that the evidence not be limited solely to information within the company itself. This will require the assurance provider to triangulate information with stakeholders in order to identify their unique perspective and potential gaps in information, which may differ from the company’s own assessment.

Views would be welcomed on the nature and amount of evidence that assurance providers should examine in order to provide the Assurance report.

**3.4. Findings Not Included in the Public Assurance Report**

The Assurance report, which would be published at the same time as the company’s Statement, would state the level of assurance provided (see section 3.5) and any Material Misstatement or Omission identified with regard to the Statement. However, it is envisaged that the assurance provider would also convey to the company any misstatements, omissions or other concerns that are considered more than “inconsequential” but less than “material.” Financial auditors follow a similar approach when providing assurance on financial reports. Such information would help guide the company in its journey towards respecting human rights.

In the event that assurance providers identify evidence of criminal activity in the course of their assurance process, they would normally report this to the company’s governance structures, in accordance with their own professional procedures. In some jurisdictions, they may be required to provide evidence of such criminal activity directly to governmental authorities. To the extent that such evidence is indicative of Material Misstatements or Omissions those misstatements or omissions would be reflected in the Assurance report.

Views regarding the handling of relevant information not included in the public Assurance report would be welcomed.

**3.5. Levels of Assurance**

The International Federation of Accountants (IFAC) International Framework for Assurance Engagements permits two levels of assurance: reasonable or limited. Reasonable assurance is an affirmative statement; it indicates that the Assurance Provider has undertaken sufficient work to express a positive view that the Statement is a fair representation. Limited assurance, in contrast, is a negative statement; it indicates that the Assurance Provider has performed a reduced level of work so as to express a view that nothing had come to their attention that would indicate that the Statement was not a fair representation.

In the financial world assurance is based largely on highly quantitative information. In contrast, there is a qualitative element to human rights risk management systems that does not always lend itself to categorical judgements. Moreover, the Human Rights Statement will allow companies the flexibility to specify both their achievements and
remaining gaps in their implementation of the UN Guiding Principles. Since areas of both strong and weak current performance will be reflected in the Human Rights Statement, limited assurance would appear to be of little value. It is therefore proposed that any assurance process should necessarily provide for “reasonable assurance” of what is stated in the Statement.

The assurance provider would not be expected to confirm the effectiveness of each and every company system, policy, process, or practice. Rather, the assurance provider would have obtained reasonable assurance that taken together as a whole, these internal controls form an adequate basis to support the company’s Human Rights Statement. Nor would the assurance provider be expected to state that the company has not or could not be involved with one or another specific human rights impact. Rather they would be providing assurance regarding the existence, suitability and effectiveness of the policies and processes for managing human rights risks, and therefore minimising the likelihood of human rights impacts occurring.

Views would be welcome regarding whether the reasonable assurance level is appropriate for this Assurance review.

3.6. The Competence and Independence of Assurance Providers

The competence and independence of assurance providers is crucial to the credibility of the Assurance and the trust that stakeholders must have in the Statement as an accurate statement of the company’s journey towards respecting human rights. Assurance providers must be competent to assess the existence, suitability and effectiveness of human rights processes.

Ensuring the competence of assurance providers requires that they have the relevant set of skills, which may vary depending on the company’s operating context and particular human rights risks. Understanding the human rights risks of a hydroelectric power company is different from understanding the human rights risks of an apparel company or an employment and recruitment agency. Depending on the company’s size, complexity, operating contexts, and business relationships, this may require the formation and coordination of an assurance provider team with different skills. In addition, it will also be important for the assurance provider team to have skills to interview local stakeholders, including those from particularly vulnerable groups.

Therefore, proposed competencies for assurance providers could include the following characteristics, depending on the company and its particular human rights risks: independence and integrity; professional scepticism; 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.
Views regarding the competencies of human rights assurance providers would be welcomed, and whether and to what extent they can or should be assessed and/or certified.

4. THE CONSULTATION AND PUBLIC COMMENT PROCESS

The Project Team welcomes views on the above description of how it envisages this project and proposes to address some of the challenging questions it will raise. It would particularly welcome views on the points highlighted at the end of each of the subsections in sections 2 and 3 above, summarised as follows:

- Both the proposed elements for inclusion in the Reporting and Assurance Standards, set out in Annex B, and the possibility that companies may limit a Statement to certain aspects of their operations (section 2.1);
- 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);
- The degree of disclosure about how the company addresses potential or actual severe impacts in the Statement (section 2.3);
- 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);
- The appropriate approach for assessing Scoping Materiality and, any other general factors that should be considered (section 3.1);
- The proposed definitions of ‘Material Weakness’ and ‘Material Misstatement or Omission’ (section 3.2);
- The nature and amount of evidence that assurance providers should examine in order to provide the Assurance report (section 3.3);
- The handling of relevant information not included in the public Assurance report (section 3.4);
- Whether the reasonable assurance level is appropriate for this Assurance review (section 3.5); and
- The competencies of human rights assurance providers, and whether and to what extent they can or should be assessed and/or certified (section 3.6).

The Project Team would also welcome suggestions for additional issues it should consider and consult on at the start of the project.

In addition to dialogue during the in-person consultations to be held in the ASEAN region in June 2013, the discussion paper will be posted for public comment on the website of the Human Rights Resource Centre for ASEAN at http://hrrca.org and the website of the Business and Human Rights Resource Centre at http://www.business-humanrights.org/ from May 1 to July 1, 2013. All comments can be submitted via email to Anna Triponel from Shift at anna.triponel[at]shiftproject.org and Bahtiar Manurung from Mazars at bahtiar[at]mazars.co.id. Comments received will generally be posted on the website of the Business and Human Rights Resource Centre. Please let us know if you would prefer that your comments not be made public.
ANNEX A—DEFINITIONS AND KEY REFERENCES

1. DEFINITIONS

Business Relationships. As used in the context of the Guiding Principles, this means the company’s relationships with its business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services. They include, among others, indirect business relationships in an enterprise’s supply chain, beyond the first tier, and minority as well as majority shareholding positions in joint ventures. See Interpretive Guide, Section II.

Human Rights. As used in the context of the Guiding Principles, this refers to all internationally recognized human rights, which include, at minimum, the 1948 Universal Declaration of Human Rights and the two 1966 treaties through which it has been codified: the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR); as well as the core conventions of the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work. See Interpretive Guide, Section III.

Human Rights Risks and Impacts. As used in the context of the Guiding Principles, human rights risks include any risks that a company’s operations may lead to one or more adverse human rights impacts. They therefore relate to its potential human rights impacts. In traditional risk assessment, risk factors in both the consequences of an event (its severity) and the probability of it occurring. In the context of human rights risk, severity is the predominant factor. Probability may be relevant in helping prioritize the order in which potential impacts are addressed in some circumstances (see ‘severe human rights impacts’ below). Importantly, human rights risks are separate from any risks to the enterprise that may flow from its involvement with human rights impacts. However, the two are increasingly related. See Interpretive Guide, Section II.

Human Rights Assurance (“Assurance”). As used in this discussion paper, this means the assurance as to the accuracy of a company’s Human Rights Statement provided by an independent and competent assurance provider.

Human Rights Statement (“Statement”). As used in this discussion paper, this means a statement prepared annually by the company, and attested to by its senior management, that states the extent to which its internal policies and processes align with the UN Guiding Principles.

Human Rights Reporting and Assurance Standards (“Standards”). As used in this discussion paper, this means the project’s proposed standards to enable companies to prepare a Human Rights Statement and for independent and competent human rights assurance providers to assure the Statement’s accuracy in a Human Rights Assurance.

Leverage. As used in the context of the Guiding Principles, this means the ability of a business enterprise to effect change in the wrongful practices of another party that is causing or contributing to an adverse human rights impact. This concept is particularly
relevant when discussing a company’s responsibility for addressing the human rights impacts of those in its value chain, such as suppliers. See Interpretive Guide, Section II.

**Material Misstatement or Omission.** As used in this discussion paper, a Material Misstatement or Omission is one that would significantly misrepresent the organisation to its stakeholders, and thereby influence their conclusions, decisions or actions. It would include a Material Weakness that remains inadequately reflected in the final Statement’s description of the company’s progress towards implementing the Guiding Principles. See section 2.5.

**A Material Weakness.** As used in this discussion paper, a Material Weakness would include a deficiency, combination of deficiencies, or systemic failure, that is likely to prevent the company from identifying or addressing:

a. its salient human rights risks; or

b. any severe human rights risks or impacts connected to its operations, products or services.

**Mitigation and Prevention.** As used in the context of the Guiding Principles, the mitigation of adverse human rights *impacts* means actions taken to reduce the extent of an impact, with any residual impact then requiring remediation. The mitigation of human rights *risks* means actions taken to reduce the likelihood of a certain adverse impact occurring. The prevention of impacts refers to actions taken to ensure that such impacts do not occur. See Interpretive Guide, Section II.

**Remediation/Remedy.** As used in the context of the Guiding Principles, these terms refer to both the *processes* of providing remedy for an adverse human rights impact and to the substantive *outcomes* that can counteract, or make good, the adverse impact. The processes can be non-judicial as well as judicial, administrative, or legislative. The outcomes may take a range of forms, including apologies, restitution, rehabilitation, financial or non-financial compensation and punitive sanctions imposed by the state (whether criminal or administrative, such as fines), as well as the prevention of harm through, for example, injunctions or guarantees of non-repetition. See Interpretive Guide, Section II.

**Salient Human Rights Impacts and Risks.** As used in the context of the Guiding Principles, a company’s most salient human rights are those that are most at risk of adverse impact from the company’s operations and business relationships. This will typically vary according to the company’s sector and operating context. A company should not focus exclusively on the most salient human rights issues and ignore others that might arise. But the most salient rights will logically be the ones on which the enterprise concentrates its primary efforts. See Interpretive Guide, Section II.

**Scoping Materiality.** As used in this discussion paper, Scoping Materiality are the criteria used to define what is material for purposes of the assurance’s scope. These are the criteria the assurance provider can consider when determining whether to undertake testing and when determining the size of a testing sample. These criteria should include:
• location (based on political, regulatory, rule of law, environment, susceptibility to corruption);
• the industry;
• the product or service;
• past performance of a business partner; and
• any vulnerable groups who may be affected.

See section 3.2.

**Severe Human Rights Impacts.** As used in the context of the Guiding Principles, the severity of a human rights impact is a function of its scale (the gravity of the impact), its scope (number of individuals impacted) and whether it can be remediated (i.e., restoring those impacted to the status quo before the impact). See Interpretive Guide, Section II.

2. **KEY REFERENCES**


ANNEX B—ELEMENTS OF THE GUIDING PRINCIPLES FOR INCLUSION IN THE REPORTING AND ASSURANCE STANDARDS

<table>
<thead>
<tr>
<th>1. Human Rights Policy Commitment</th>
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<tbody>
<tr>
<td><strong>As the basis for embedding their responsibility to respect human rights, the UN Guiding Principles note that companies should express their commitment to meet this responsibility through a statement of policy (Guiding Principle 16). This policy commitment “is the first essential step for embedding respect for human rights into the values of the enterprise.</strong>&lt;sup&gt;9&lt;/sup&gt; The term “statement of policy” refers to whatever means an enterprise employs to set out publicly its responsibilities, commitments, and expectations (Commentary to Guiding Principle 16).</td>
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<table>
<thead>
<tr>
<th>Under the Reporting Standard, it is proposed that companies would report on:</th>
<th>Under the Assurance Standard, it is proposed that assurance providers would review:</th>
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<tbody>
<tr>
<td>The scope of the company’s human rights policy commitment;</td>
<td>The means through which the statement was developed, including expert input;</td>
</tr>
<tr>
<td>The level at which it is approved; and</td>
<td>The extent to which the policy’s development drew on relevant internal and external expertise, as appropriate to the company’s size and capacity, and whether it was approved at its most senior level;</td>
</tr>
<tr>
<td>Whether internal policies are aligned with the human rights policy commitment.</td>
<td>The clarity with which the company’s human rights expectations of its own personnel, as well as third parties with which the company has a business relationship, are stipulated;</td>
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<tr>
<td></td>
<td>The extent to which the policy is accessible to its intended audiences;</td>
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<td></td>
<td>The company’s other policies that are directly relevant to human rights; and</td>
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<tr>
<td></td>
<td>Whether and how the company’s wider policies are aligned with its human rights policy commitment.</td>
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<sup>9</sup> Interpretive Guide at p. 27
## 2. Embedding Respect for Human Rights in a Company

The UN Guiding Principles observe that a company’s policy commitment to respect human rights should be embedded from the top of the enterprise through all its functions, which otherwise may act without regard for human rights. This requires coherence between the human rights policy and other policies and procedures that govern its wider business activities and relationships (Guiding Principle 16).

<table>
<thead>
<tr>
<th>Under the Reporting Standard, it is proposed that companies would report on:</th>
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<tr>
<td>The allocation of responsibility, resources and oversight for implementation of the human rights policy commitment; and</td>
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<tr>
<td>How management embeds respect for human rights across the company.</td>
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<tr>
<th>Under the Assurance Standard, it is proposed that assurance providers would review:</th>
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<tbody>
<tr>
<td>The existence, suitability, and effectiveness of the steps taken by top management to align the tone, values and culture of the company with its commitment to respect human rights;</td>
</tr>
<tr>
<td>The clarity of allocation of responsibility and accountability and the sufficiency of resources assigned for implementation of the human rights policy;</td>
</tr>
<tr>
<td>How and the extent to which human rights are included within the company’s training and capacity building programmes, and the extent to which such training is effective;</td>
</tr>
<tr>
<td>The existence, suitability, and effectiveness of incentives (financial and non-financial, positive and negative) for staff to integrate respect for human rights into their own decisions and actions;</td>
</tr>
<tr>
<td>The existence, suitability, and effectiveness of processes and criteria used to build leverage into business relationships at the outset with regard to respect for human rights;</td>
</tr>
<tr>
<td>The existence, suitability, and effectiveness of criteria used in the company’s decision-making processes to take account of respect for human rights;</td>
</tr>
<tr>
<td>The existence, suitability, and effectiveness of the company’s processes and criteria for addressing conflicts</td>
</tr>
</tbody>
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between human rights standards and national law and human rights dilemmas and for learning the lessons therefrom; and

The existence, suitability, and effectiveness of the company’s processes and criteria for identifying the risks of gross human rights abuses and elevating them within the company to ensure an adequate response.

### 3. Assessing Risks to Human Rights

The UN Guiding Principles state that companies should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This includes assessing the human rights context prior to a proposed business activity, where possible; identifying who may be affected; cataloguing the relevant human rights standards and issues; and projecting how the proposed activity and associated business relationships could have adverse human rights impacts on those identified. Importantly, human rights risks to people impacted as a result of the business’s activities or its relationships should be considered separately from any risks to the business that may flow from its involvement with human rights impacts. However, the two are increasingly related (Guiding Principles 17 – 18).

<table>
<thead>
<tr>
<th>Under the Reporting Standard, it is proposed that companies would report on:</th>
<th>Under the Assurance Standard, it is proposed that assurance providers would review:</th>
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<tbody>
<tr>
<td>The company’s salient human rights risks and the reasons for any changes in them since the last statement; and</td>
<td>The existence, suitability, and effectiveness of the company’s processes and criteria for identifying and assessing human rights risks associated with the company’s activities or business relationships, including their severity and probability, with attention to how different parts of the company are involved in those processes;</td>
</tr>
<tr>
<td>To what extent and how the company engages external stakeholders, including directly affected stakeholder, in the assessment of its human rights risks.</td>
<td>The sufficiency of the expertise and other sources drawn upon in these assessments;</td>
</tr>
<tr>
<td></td>
<td>The existence, suitability, and effectiveness of processes and criteria for triggering new or repeat assessments and their appropriateness;</td>
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The existence, suitability, and effectiveness of processes and criteria for determining whether to conduct a stand-alone or an integrated assessment;

The existence, suitability, and effectiveness of processes and criteria for the identification of contexts where consultation with potentially affected groups and other relevant stakeholders is undertaken; and

Where consultation is undertaken with potentially affected groups, the design and effectiveness of those consultation processes.

4. Integrated, Cross-Functional Decision-Making to Address Human Rights Impacts

The UN Guiding Principles state that in order to prevent and mitigate adverse human rights impacts, companies should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action in order to prevent and mitigate the impacts identified, prioritized on the basis of severity of impact to the stakeholder. Integration requires internal decision-making, budget allocations and oversight processes that enable effective responses to such impacts (Guiding Principle 19).

Under the Reporting Standard, it is proposed that companies would report on:

The company’s efforts to mitigate its human rights risks, with particular attention to its salient risks.

Under the Assurance Standard, it is proposed that Assurance Providers would review:

The existence, suitability, and effectiveness of processes and criteria for prioritising action in response to the risks/impacts identified,

The existence, suitability, and effectiveness of processes and criteria for identifying the severity of impacts from the perspective of those affected;

The existence, suitability, and effectiveness of processes and criteria for the assignment of responsibility for ensuring that processes are set in train to mitigate the identified risks/impacts;

The existence, suitability, and
effectiveness of processes and criteria for the identification of underlying causes of risks/impacts;

The existence, suitability, and effectiveness of processes and criteria to ensure that information-sharing and decision-making processes to address impacts involve the full range of relevant functions/departments;

The existence, suitability, and effectiveness of actions taken to address the risks/impacts identified;

The existence, suitability, and effectiveness of processes and criteria to assign responsibility and accountability for the execution of actions identified to mitigate impacts; and

The existence, suitability, and effectiveness of processes and criteria for identifying and allocating resources necessary to mitigate impacts.

<table>
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<tr>
<th>5. Measuring the Effectiveness of Company Responses to Human Rights Impacts</th>
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The UN Guiding Principles underline the need for companies to track the effectiveness of their responses to adverse human rights impacts (whether actual or potential impacts) in order to verify whether the impacts are being addressed effectively. Tracking should be based on appropriate qualitative and quantitative indicators and draw on feedback from both internal and external sources, including affected stakeholders (Guiding Principle 20).

**Under the Reporting Standard, it is proposed that companies would report on:**

- Trends in human rights risks, impacts and formally-registered grievances connected to the company’s operations (whether through cause, contribution or linkage);

- To what extent and how the company engages internal and external stakeholders, including directly affected stakeholders, in tracking its performance;

**Under the Assurance Standard, it is proposed that assurance providers would review:**

- The existence, suitability, and effectiveness of quantitative and qualitative performance indicators used by the company to measure its response to human rights risks/impacts (including any disaggregation of data by group, where relevant);

- The existence, suitability, and
and  
How significant trends or patterns in data have influenced company policy or practice.

effectiveness of processes and criteria for tracking, aggregating and analysing data relevant for understanding the effectiveness of responses; 
The existence, suitability, and effectiveness of processes and criteria for integrating feedback from internal and external sources, including affected stakeholders; 
The existence, suitability, and effectiveness of processes and criteria for reporting critical findings, including trends and patterns, up the organization; and 
The existence, suitability, and effectiveness of processes and criteria for ensuring that learning from these metrics is integrated back into the company’s policies and processes to enable continuous improvement.

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<tr>
<th>6. Communicating the Company Responses to Human Rights Impacts</th>
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<tr>
<td><strong>In order to account for how they address their human rights impacts, companies should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Communications should be of a form and frequency that reflect a company’s human rights impacts and that are accessible to its intended audiences; provide information that is sufficient to evaluate the adequacy of a company’s response to the particular human rights impact involved; and not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality (Guiding Principle 21).</strong></td>
</tr>
<tr>
<td><strong>Under the Reporting Standard, it is proposed that companies would report on:</strong></td>
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<tr>
<td>How the company communicates with affected stakeholders regarding specific human rights risks and impacts, and relevant examples from the reporting period.</td>
</tr>
<tr>
<td>The existence, suitability, and effectiveness of the company’s processes and criteria for ensuring communications are accessible to, and understood by, its</td>
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intended audiences, and
The existence, suitability, and
effectiveness of the company’s processes
and criteria for ensuring the consistency,
clarity, timeliness and usefulness of
communications.

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<tr>
<th>7. Complaints Handling and Grievance Mechanisms</th>
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*The UN Guiding Principles state that where companies identify that they have caused
or contributed to adverse human rights impacts, they should provide for or cooperate
in their remediation through legitimate processes. They also provide that companies
should establish or participate in effective operational-level grievance mechanisms for
individuals and communities who may be adversely impacted, so that grievances may
be addressed early and remediated directly.*  
(Guiding Principles 22, 29, and 31).

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<tr>
<th>Under the Reporting Standard, it is proposed that companies would report on:</th>
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- How the company approaches the remediation of human rights impacts with
  which it is involved; and
- The type of grievance mechanisms it has in place, and their accessibility to potentially
  affected stakeholders and/or to others who wish to raise concerns related to the
  company’s human rights risks or impacts, including:
  - who can access them;
  - how their effectiveness is ensured or improved; and
  - any general learning they have raised for the company in the reporting period.

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<tr>
<th>Under the assurance standard, it is proposed that assurance providers would review:</th>
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- The existence, suitability, and effectiveness of the company’s processes
  and criteria for identifying appropriate remedies for those who have suffered a
  human rights impact that the company caused or contributed to, including
  provisions for dialogue with those affected; and
- The existence, suitability, and effectiveness of the operation of the
  company’s formal grievance mechanism(s), including:
  - The groups to which the mechanism is available;
  - The types of impact for which the mechanism is available;
  - The processes provided for within the mechanism;
  - The extent to which the mechanism satisfies the effectiveness criteria set forth
in Guiding Principle 31, in theory and in practice\textsuperscript{10}; and

- The levels of usage of the grievance mechanism and the types of outcome it has produced in the reporting period.

\textsuperscript{10} These are that the grievance mechanism should be (1) legitimate, (2) accessible, (3) predictable, (4) equitable, (5) transparent, (6) rights-compatible, (7) a source of continuous learning, and (8) based on engagement and dialogue.