Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

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Thursday, 5 November 2015
Afternoon Session

Review of good practices on enhancing the role of corporate reporting in attaining Sustainable Development Goals

Presented by

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Past Chair ISAR 30th Session

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Sustainable Development & (Non-)Financial Reporting

David Szafran
Avocat
Past Chair ISAR 30th Session

5 November 2015
Consumer pressure

SDGs influence buying behaviour

Q. If you knew that an organisation had signed up to the UN’s Sustainable Development Goals, would that make you more or less likely to use their goods or services? (% responding likely or very likely)

78% citizens say they are likely or very likely to use the good and services from companies signed up to the SDGs – in many countries it’s even higher

Source: PwC SDG Engagement Survey, 2016
Assessing SDGs: where to start

80% business plans to assess its impact, but most have only some of the SDGs in mind

How do you choose which ones?

Ideal, but practical?

Source: PwC SDG Engagement Survey, 2015
New EU Disclosures Requirements

Today’s annual Report
- Large companies
- Main Risks & Uncertainties
- KPI environmental & social issues
- Listed companies
- Corporate governance
- Risk Management
- Internal Control

EU Directive 2014/95/EC
- Large PIEs (500 employees+ balance sheet 20mio€ or net turnover 40mio€)
  - Environmental
  - Social
  - Human Rights
  - Anti-bribery
- Listed companies
  - Diversity

Comply or explain
- Policies
- Risks
- Outcomes
- KPIs
The Ten Principles of the
United Nations Global Compact

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

**HUMAN RIGHTS**

**Principle 1** Businesses should support and respect the protection of internationally proclaimed human rights; and
**Principle 2** make sure that they are not complicit in human rights abuses.

**LABOUR**

**Principle 3** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
**Principle 4** the elimination of all forms of forced and compulsory labour;
**Principle 5** the effective abolition of child labour; and
**Principle 6** the elimination of discrimination in respect of employment and occupation.

**ENVIRONMENT**

**Principle 7** Businesses should support a precautionary approach to environmental challenges;
**Principle 8** undertake initiatives to promote greater environmental responsibility; and
**Principle 9** encourage the development and diffusion of environmentally friendly technologies.

**ANTI-CORRUPTION**

**Principle 10** Businesses should work against corruption in all its forms, including extortion and bribery.
**BEL 20 Readiness Assessment**

**Non-financial disclosure**

% of BEL20 companies disclosing non-financial information

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**Method**

we looked at the most recently available annual and sustainability reports (as of July 2015), and

we analysed the maturity of BEL20 companies against the new reporting requirements.

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*Source: Ready for new EU non-financial disclosure requirements? Results of the readiness assessment on non-financial disclosure, PwC - Law Square, 2015*
**BEL 20 Readiness Assessment**

**Non-financial disclosure**

- **Strengths**
  - Description of the business model
  - Sharing insight on environmental matters
  - Disclosure on social & employee-related matters

- **Improvements**
  - Description of diversity in management
  - Disclosure of information on human rights
  - Communication on anti-corruption and bribery

*Source: Ready for new EU non-financial disclosure requirements? Results of the readiness assessment on non-financial disclosure, PwC - Law Square, 2015*
**BEL 20 Readiness Assessment**

**Non-financial disclosure**

- **65%** of BEL20 companies report using the reporting framework provided by the Global Reporting Initiative, of which 35% report in accordance with GRI G4, a significant increase from 10% compared to 2013.

- **40%** of BEL20 companies align their strategies and operations to the UN Global Compact guiding principles.

- **40%** of BEL20 companies are seeking independent assurance services in accordance with ISAE 3000 on (aspects of) their non-financial reporting.

*Source: Ready for new EU non-financial disclosure requirements? Results of the readiness assessment on non-financial disclosure, PwC - Law Square, 2015*
Methodological approach

COSO ERM Framework

ISO 31000:2009 standard
### Risk management cycle

**Risk category** | **Risk subcategory**
---|---
**Strategic** | Clients, Competitors, Partners, Investors, Product portfolio,…
**Operational** | Infrastructure capacity, Production technology, Knowledge management, Sourcing, Supply chain,…
**Financial** | Financing, Liquidity, Currency, Taxes,…
**Legal** | Contracting, market abuse, anti-trust, anti-corruption, privacy, corporate governance,…
**External** | Terrorism, Natural disaster, Country risk,…
Legal Compliance (sample)

- Corporate Law
- Antitrust
- Anti-bribery
- Trade Controls
- Business Practices
- Import
- Consumer Protection
- Conflicts of Interests
- Sector specific
- Privacy & Data Protection
- Intellectual Property
- Tax
- AML
Legal Compliance
Sector specific (sample)

- Credit Institutions
- Telecommunications
- Insurance Companies
- Oil/Gas
- Pharmaceutical
- Electricity
- Manufacturers
Anti-bribery – Global issue

Corruption is an issue all over the world

- Corruption Perceptions Index 2014

Risk assessment per country, for each subsidiary/branch, taking into account specificities of your local management and staff.

CORRUPTION PERCEPTIONS INDEX 2014

The perceived levels of public sector corruption in 175 countries/territories around the world.
## Probability Scoring Matrix (sample)

<table>
<thead>
<tr>
<th>Probability</th>
<th>Quantitative</th>
<th>Status of Actual Case(s) of the Scheme</th>
<th>Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low probability of corruption activity</td>
<td>1</td>
<td>&lt; 10% chance</td>
<td>Root cause of incident has been remediated (reducing the chance of repeat occurrence).</td>
</tr>
<tr>
<td>Little probability of corruption activity</td>
<td>2</td>
<td>10%–25% chance</td>
<td>Root cause of incident is in the process of being remediated.</td>
</tr>
<tr>
<td>Some probability of corruption activity</td>
<td>3</td>
<td>26%–50% chance</td>
<td>Incident has been contained.</td>
</tr>
<tr>
<td>Considerable probability of corruption activity</td>
<td>4</td>
<td>51%–75% chance</td>
<td>Incident is in the process of being contained.</td>
</tr>
<tr>
<td>Very high probability of corruption activity</td>
<td>5</td>
<td>&gt; 75% chance</td>
<td>Incident has been reported and is currently under investigation.</td>
</tr>
</tbody>
</table>

Source: p.58
## Impact Scoring Matrix (sample)

<table>
<thead>
<tr>
<th>Potential Impact</th>
<th>Reputation</th>
<th>Financial</th>
<th>Legal / Compliance</th>
<th>Stakeholders - Customers</th>
<th>Stakeholders - Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insignificant Impact</td>
<td>Minimal local media attention quickly contained, short term recoverability.</td>
<td>Financial impact is &lt; 5% of selected budget item (e.g., revenue or income).</td>
<td>Notice of violation/warnings requiring administrative action and minimal penalties.</td>
<td>Minimal customer complaints and recovery costs.</td>
<td>Insignificant impact on ___ Department’s ability to recruit and retain employees.</td>
</tr>
<tr>
<td>Minor Impact</td>
<td>Local market impact on Department’s brand and reputation.</td>
<td>Financial impact is between 5% and 10% of selected budget item (e.g., revenue or income).</td>
<td>Routine governing body litigations subject to moderate fines and penalties may be subject to regulatory proceedings and/or hearings.</td>
<td>Minimal decline in customer relationships and some recovery costs.</td>
<td>Some impact on ___ Department’s ability to recruit and retain employees.</td>
</tr>
<tr>
<td>Moderate Impact</td>
<td>Sustained local press coverage with escalating customer implications.</td>
<td>Financial impact is between 10% and 20% of selected budget item (e.g., revenue or income).</td>
<td>Routine litigation subject to substantial fines or penalties, subject to regulatory proceedings and/or hearings.</td>
<td>Loss or decline of customer relationships and moderate recovery costs.</td>
<td>Significant impact on ___ Department’s ability to recruit and retain top performers.</td>
</tr>
<tr>
<td>Major Impact</td>
<td>National or sustained regional press coverage with long-term damage to public image.</td>
<td>Financial impact is between 20% and 30% of selected budget item (e.g., revenue or income).</td>
<td>Potentially a significant governing body scrutiny, investigations subject to substantial fines and penalties, which may include some criminal charges, subject to regulatory proceedings and/or hearings.</td>
<td>Strained key customer relationships and significant recovery costs and threat to future growth.</td>
<td>Major impact on ___ Department’s ability to recruit and retain top performers.</td>
</tr>
<tr>
<td>Catastrophic Impact</td>
<td>Global Media Coverage.</td>
<td>Financial impact is &gt; 30% of selected budget item (e.g., revenue or income).</td>
<td>Major scrutiny, investigations subject to substantial fines and penalties including criminal charges, and/or cease-and-desist orders, possible regulatory action.</td>
<td>Loss of major customer relationships and serious threat to future growth.</td>
<td>Sustained impact on ___ Department’s ability to recruit and retain top performers.</td>
</tr>
</tbody>
</table>

Source: p.59
### Control Rating – Scoring Matrix

<table>
<thead>
<tr>
<th>Qualitative Categorization</th>
<th>Numerical Categorization</th>
<th>Control Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent/Very Effective</td>
<td>5</td>
<td>Very Low</td>
</tr>
<tr>
<td>Good/Effective</td>
<td>4</td>
<td>Low</td>
</tr>
<tr>
<td>Fair/Neutral/Partially Effective</td>
<td>3</td>
<td>Medium</td>
</tr>
<tr>
<td>Poor/Somewhat Effective</td>
<td>2</td>
<td>High</td>
</tr>
<tr>
<td>Very Poor/Ineffective</td>
<td>1</td>
<td>Very High</td>
</tr>
</tbody>
</table>

**Controls on:**

- Training
- Gift, Hospitality and Entertainment
- Policy
- ...

*Source: p.63*
Corruption Risk Response (sample)

- Continuous Review
  - Inherent Risk Rating: 10, Control Risk Rating: 7
- No Major Concern
  - Inherent Risk Rating: 6, Control Risk Rating: 8
- Active Management
  - Inherent Risk Rating: 4, Control Risk Rating: 1
- Periodic Review
  - Inherent Risk Rating: 5, Control Risk Rating: 2

Source: p.71
Conclusion

- Sustainable Development Goals
- New EU non-financial disclosure requirements
- Frameworks
  - UN Global
  - GRI
  - Assurance
- Accounting Development Tool (ADT)
- Monitoring, Compliance & Enforcement