business solutions for a sustainable world

Controlling Non-Financial Reporting

An Internal Control Framework for Non-Financial Reporting based on the underlying principles of the 2013 COSO Internal Control-Integrated Framework

Future Leaders Team 2013

wbcsd future leaders

Objective

The aim of the *Internal Control Framework for Non-Financial Reporting* (the *Framework*) presented in this document is to assist organizations, including WBCSD member companies, in improving controls associated with the collection, consolidation and reporting of non-financial information.

The *Framework* will help organizations implement controls to improve accuracy, completeness and reliability of information, including guidance on supporting evidence, the use of spreadsheets, and other system solutions. The availability of better non-financial information will lead to better decision-making.

The *Framework* will also provide guidance for internal and external assurance providers on how to improve the quality of their reviews and have a consistent, efficient and controlled approach. This should lead to reduced assurance costs for organizations.

Introduction

Companies are facing an increasingly complex and varied set of challenges, such as demographic changes, human rights issues in the supply chain, and environmental pressures, including changing climate and resource scarcity, just to name a few.

In the face of this escalating complexity, it is becoming increasingly clear that traditional financially oriented management and corporate reporting does not help investors understand and feel confident in their understanding of a company's full range of current activities and future direction, including both its financial and non-financial aspects.

This challenge has not gone unnoticed in external reporting communities. Regulatory frameworks for non-financial reporting are under development in several jurisdictions around the world. For example, the Sustainability Accounting Standards Board (SASB) in the United States is developing industry-based sustainability standards for the recognition and disclosure of material environmental, social and governance impacts by companies whose stocks are traded on U.S. exchanges. In addition, the Johannesburg Stock Exchange began enforcing integrated reporting across all listed companies through compliance with the King III Report in 2010.[1]

There have been significant efforts to develop voluntary reporting standards as well. The International Integrated Reporting Council (IIRC)[2] was formed with the mission of evolving corporate reporting by developing the globally accepted international integrated reporting framework that elicits material information about strategy, governance and performance. The IIRC, composed of a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organizations (NGOs), issued a draft of their framework for consultation in April 2013.[3] The Global Reporting Initiative's (GRI) sustainability reporting guidelines for companies have become increasingly widely used over the past decade and have undergone periodic updating and improvement during that time. GRI launched the current edition of the GRI guidelines, called "G4", earlier in 2013.[4]

External stakeholders are also increasingly requiring companies to report non-financial information through other initiatives. Two such examples are the Carbon Disclosure Project (CDP) and the United Nations Global Compact (UNGC). In the CDP, companies report as a request from investors or supply chain stakeholders;[5] in the UNGC, companies report to show accountability about their commitment to ten principles in the areas of human rights, labor, the environment and anti-corruption.[6]

In addition to the development of regulatory based and voluntary standards, individual companies have also taken a series of high-profile initiatives. For example, PUMA developed an Environmental Profit and Loss (EP&L) account, which is a mean of placing a monetary value on the environmental impacts along its supply chain.[7] Business leaders have also formed the B Team, which seeks to develop and implement a Plan B for business that puts people and planet alongside profit.[8] Finally, the Economics of Ecosystems and Biodiversity (TEEB) for Business Coalition is a multi-stakeholder open source platform for supporting the development of methods for natural and social capital valuation in business.[9]

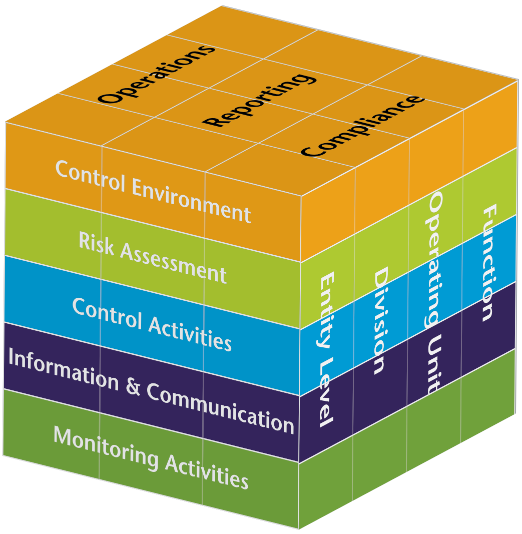
Clearly, the need for better non-financial information is keenly felt. It is also clear that there are a variety of organizations, such as the IIRC[10] and GRI,[11] that are working hard to develop various standards to meet this need. However, before any company can report accurate, material and useful non-financial information according to any standard, whether it be regulatory or voluntary, global, regional or otherwise, it must first have confidence in the quality of its non-financial information, which is a function of the quality of its non-financial internal control environment.

The COSO Internal Control-Integrated Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) initially developed the COSO Internal Control-Integrated Framework[12] in 1992.

COSO's mission is to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The most recent version of the COSO Internal Control-Integrated Framework was published in May 2013.

The internal control process within the COSO Internal Control-Integrated Framework comprises 17 principles grouped into five interrelated components: control environment, risk assessment, control activities, information & communication, and monitoring activities:



The **control environment** sets the tone at the top of the company and includes the integrity, ethical values and competence of the company's management. **Risk assessment** is the identification and analysis of the various risks to the achievement of the company's objectives. **Control activities** are actions taken to ensure that the risks to the achievement of the company's objectives are contained. This includes a range of activities such as approvals, authorizations, verifications, reconciliations, security of assets and segregation of powers and responsibilities. Information and communication is necessary to ensure that all pertinent information is captured and communicated in a form and timeframe that enables professionals to carry out their responsibilities. In addition, **information and communication** ensures that all personnel receive a clear message from top management that control responsibilities are to be taken seriously and that each professional understands his or her own role in the control system and is able to communicate significant information upstream. **Monitoring** is the process of assessing the quality of the controls over time.

Control Environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	6. Specifies suitable objectives 7. Identifies and analyses risk 8. Assesses fraud risk 9. Identifies and analyses significant change
Control Activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & Communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Definition of internal control over non-financial reporting

Internal control over non-financial reporting is:[13] **a process designed by or under the supervision of the company's principal executive and effected by the board of directors and executive management to provide reasonable assurance with respect to the reliability of non-financial reporting.** Robust disclosures supported by a solid, fit-for-purpose reporting framework allow a company to develop high-quality, credible non-financial information that is meaningful to all its shareholders, and stakeholders at large. Internal control will advance the company's internal sustainability strategy, mission and vision through streamlined information flow, enhanced cross-functional coordination and increased commitment to the sustainability program. A high-quality disclosure and reporting process consists of a deliberate strategy with strong functional processes and well-designed data controls.

The Internal Control Framework for Non-financial Reporting

The *Internal Control Framework for Non-financial Reporting* (the *Framework*) was developed using the underlying concepts of the COSO Internal Control-Integrated Framework described in the previous section.

The objectives and examples of measures and controls were developed through consultation with the 13 WBCSD member companies involved in the development of this document. For more details on the development process, please see the appendix.

The COSO Internal Control-Integrated Framework is regarded as one of the most well-known frameworks for internal controls and came as a natural choice for use as a foundation for the development of the *Framework* presented in this document. The intention was to leverage the same concepts, processes and procedures that were already in place for financial information. This allows for benefits such as: easier comprehension and adoption by people already experienced with corporate reporting and internal controls, and stronger engagement from the financial community, which is usually more accustomed to internal controls methodology, objectives and language than to sustainability vocabulary.

The COSO Internal Control-Integrated Framework has been used since the mid-1990s and is widely used by WBCSD member companies. Those who have worked with either enterprise risk management or internal controls have probably been exposed in a larger or lesser extent to the COSO Internal Control-Integrated Framework. The same level of rigor can be applied to the recording, collection and reporting of non-financial information.

The *Framework* presented here provides a guide to help companies as they develop robust internal controls for non-financial reporting, both in order to prepare for fast evolving non-financial external reporting requirements and to improve internal reporting so that senior management can have better information to make decisions to best navigate their organizations through today's increasingly complex world.

Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. For non-financial reporting, control environment factors include the integrity, ethical values and competence of the entity's people involved in non-financial reporting; how management sets clear expectations regarding the need for good quality reporting; the way management assigns authority and responsibility for non-financial reporting, and organizes and develops its people to support it; and the attention and direction provided by the board of directors. Non-financial reporting provides relevant information for strategic decision-making (internally and externally) and long-term business continuity.

COSO Framework	Leading practices in non-financial reporting	
Principles	**Objectives** "What objectives need to be in place to ensure leading non-financial reporting?"	**Examples of measures and controls** "What hard evidence (e.g. documentation, process, action) demonstrates that the objectives are in place?"
1. Integrity and ethical values The organization demonstrates a commitment to integrity and ethical values and the incorporation of sustainability into business practice	• Sustainability and the associated non-financial reporting are embedded in the organization's values and culture and fully integrated into the business model and strategy • Non-financial reporting is used strategically to provide relevant information for short-, mid- and long-term business decisions • Board of directors and executive management demonstrate commitment to the importance of sustainability and non-financial reporting	• Written and communicated organization commitment towards sustainability and its importance in business performance • Integration of non-financial key performance indicators (KPIs) into internal and external reporting • Committee and/or individuals at board of directors and/or executive management levels responsible for sustainability and non-financial reporting • Code of conduct is in place and proof of active compliance management available • Annual report includes non-financial performance targets and describes the non-financial reporting process and the work performed to strengthen the associated internal control systems

2. Oversight Board of directors/ management exercise oversight of the development and performance of internal control over non-financial reporting	• Board of directors and/or executive management set clear expectations at the various levels of the organization regarding the need and importance of non-financial reporting and ensure it is equally prioritized across the organization • Board of directors and executive management approve reporting organizational structure	• The board of directors and/or executive management reviews non-financial performance and progress reports on oversight activities concerning non-financial reporting • Board of directors and/or executive management provides oversight to ensure that internal controls are regularly assessed, and control deficiencies are followed up with actions to limit risks
3. Structure, authority and responsibility Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities to ensure quality of non-financial reporting and control	• Reporting principles are aligned for all operations and geographical locations • Clear organizational structure, roles and responsibilities for reporting non-financial information foster ownership • Non-financial reporting is supported by/aligned with the finance/corporate reporting function to allow integrated management discussion about quality and effectiveness of business processes	• Organizational structure is clearly documented with responsibilities and reporting lines for non-financial reporting • A governance model for sustainability is established, engaging relevant departments (internal audit, sustainability, human resources, controlling, risk management) in regular meetings and/or through dedicated committees/councils • Non-financial performance targets are cascaded and translated into targets for business units and lower echelons with clear training and guidance for reporting
4. Competence The organization demonstrates a commitment to attracting, developing and retaining competent individuals to ensure quality of non-financial reporting and control	• The appropriate expertise and competence of the individuals involved in non-financial reporting are ensured, especially for data management (i.e. accuracy, validity, completeness, consistency and relevance of data) • Knowledge sharing and learning culture is fostered • Job profiles with non-financial reporting activities are made attractive within the business and good performance is rewarded (actions toward attraction and retention)	• Active talent management to retain and enhance competencies: - Qualified experts involved in non-financial data collection and reporting (e.g. job profile requirements) - Training for relevant departments or individuals on non-financial reporting/ controlling and its link to business (e.g. training programs, training records)
5. Accountability The organization holds individuals accountable for their internal control responsibilities for non-financial reporting	• Individuals involved in non-financial reporting take ownership and are accountable for implementing and executing data management practices that ensure high data quality over time	• Reporting and data management responsibilities included in job profile of those involved in sustainability • Target setting and action plans in written form for each business unit and aggregated at organization levels • Performance targets associated with non-financial reporting are included in remuneration or incentive models of relevant individuals

Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives that are linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to the achievement of the objectives, forming a basis for determining how the risks should be managed. For non-financial reporting, this means the proper identification of material issues using a robust materiality assessment. It also refers to the recognition of situations that might impact data quality and the associated risk level to design and implement the appropriate internal controls. Because economic, industry, regulatory and operating conditions, and stakeholder expectations will continue to change, mechanisms are also needed to identify and deal with the special risks associated with change.

COSO Framework	Leading practices in non-financial reporting	
Principles	**Objectives** "What objectives need to be in place to ensure leading non-financial reporting?"	**Examples of measures and controls** "What hard evidence (e.g. documentation, process, action) demonstrates that the objectives are in place?"
6. Relevant objectives The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives	• Based on an organization's business strategy, the board of directors and/or executive management sets both financial and non-financial objectives • Identification of non-financial material issues - good and bad - is supported by a robust materiality assessment and iterate reviews to measure impact on business objectives	• Concise non-financial objectives which have measurable targets with timelines • Documented materiality assessment process and results • The materiality assessment considers a comprehensive pool of non-financial aspects (both negative and positive) along the entire value chain and provides information on the impact on the business objective. • External stakeholders are engaged in the process

7. Identification and analysis of risk The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed	• The organization has ongoing processes to identify and assess non-financial risks and associated reporting risks as part of their risk management process and highlights the impact on the business (short, medium and long term) • The organization evaluates and determines a range of solutions for non-financial risks and associated reporting risks. The organization understands the impact these solutions might have on its financial, environmental and social capital. In case of a risk event, the organization uses the approved range of solutions	• Risk management framework for identification and assessment of non-financial risk areas (including risk of misreporting) in place • The enterprise risk management team has established an organizational structure and associated processes which allow for the identification and reporting of non-financial reporting related risks across the entire organization • Documentation of the assessment process of non-financial reporting relating risks and its impact on business is available • Accepted ranges of solutions are documented, approved by management and regularly (re)evaluated • Responses to risk events are recorded and evaluated for effectiveness. Learning from past events is considered during the (re) evaluation and determination of ranges of solutions
8. Fraud risk The organization considers the potential for fraud in assessing risks to the achievement of objectives	• The organization performs regular fraud risk assessments also from a non-financial reporting perspective, which are included in the risk assessment report provided to the board of directors and/or executive management • Employee incentives associated with non-financial performance targets and associated reporting have controls in place to reduce fraud risk. Antifraud controls are spread across the organization	• Whistle blower channel available for all employees and embedded in company culture; timely follow up and resolution of suspected fraud incidents • Key antifraud controls in place, documented and regularly reviewed (e.g. segregation of duties for approval of non-financial reporting, via systems or signed documents) • The board of director and/or executive management is kept informed about and takes action accordingly on fraud cases
9. Identification and analysis of significant change The organization identifies and assesses changes that could significantly impact the system of internal controls	• The company has a process to identify internal and external changes that could impact non-financial reporting and implement required actions • The impacts of changes in the business environment (external and internal), organization structure and internal control environment associated with non-financial reporting are regularly assessed	• Business units or functions regularly monitor compliance associated with non-financial reporting • Clear roles and responsibilities are defined and documented to ensure that changes in the business environment, organization structure or control environment are identified, reported in a timely manner and properly managed

Control Activities

Control activities are the policies and procedures that help ensure management directives associated with non-financial reporting are carried out. They help ensure that necessary actions are taken to ensure data quality and address risks of misreporting. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, confirmation of assumptions and estimations, security of assets and segregation of duties.

COSO Framework	Leading practices in non-financial reporting	
Principles	**Objectives** "What objectives need to be in place to ensure leading non-financial reporting?"	**Examples of measures and controls** "What hard evidence (e.g. documentation, process, action) demonstrates that the objectives are in place?"
10. Development of control activities The organization selects and develops control activities that contribute to the mitigation of risks related to non-financial reporting	• The organization has clearly defined the level of internal controls which is applied to non-financial information and how they create value (e.g. by reducing operational and/or reputational risks) with respect to: - Processes and systems - Data accuracy, validity and completeness - Measurement units of different data sources • Fixed cycles, timelines and milestones in place for reporting of non-financial information	• Documented procedures outlining data collection, transfer and consolidation processes are available • Data based on assumptions and estimations are clearly identified • Assumption and sources of information are documented • Formal schedule for reporting cycles and timings is available, including milestones and deliverables • Segregation of duties associated with non-financial reporting processes is in place • Internal controls are documented and implemented into business and reporting processes • Supporting documentation is stored safely and is easily accessible by relevant individuals

11. Technology The organization selects and develops general control activities over technology to support the achievement of objectives	• Properly designed and efficient IT systems support group-wide non-financial reporting • IT system is equivalent or fully aligned with systems that gather information for financial reporting	In addition, for IT platforms or databases: • Automatic interfaces of IT systems in place to ensure comparable data, correct consolidation • Procedures in place for IT governance, user access, IT Security, change management, back up & recovery and service level agreement for outsourced services. • Protocols outlining configuration of IT systems (e.g. entities reporting, calculations performed, embedded calculation assumptions) • Regular update of IT systems to fit-for-purpose reporting level And, for other reporting systems (e.g. spreadsheets): • Critical spreadsheets clearly identified • Appropriate naming of files; storage, back-up and archiving processes in place • Well-defined segregation of duties and user access • Automated reconciliations and interfaces for data which are used in multiple reports
12. Policies and procedures The organization deploys control activities through policies that establish what is expected and procedures that put policies into place	• Documented procedures (i.e. policies, manuals and guidelines) for data gathering and reporting are in place • Documented procedures are: accurate, complete, relevant, kept up-to-date and communicated • Changes to reporting approach are recorded and communicated	• Non-financial reporting and control process manual is available (e.g. periodic reviews, preparer/approver roles, review history) • Supporting standards (e.g. Greenhouse Gas (GHG) Protocol) are referenced and kept readily available (e.g. central knowledge platform) Documented procedures contain: • KPI definition • Measurement units • Assumption and calculation methods • Data collection and reporting process from data capture to final reporting • Required internal controls and reconciliations • Reporting timelines • Roles and responsibilities • KPI's link to materiality analysis and role for business steering • List of information sources and related reporting standards (e.g. Intergovernmental Panel on Climate Change (IPCC), GRI, GHG Protocol)

Information & Communication

Pertinent non-financial information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports containing non-financial information that makes it possible to run and control the business. Non-financial information is used for business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel across the entire organization must receive a clear message from top management that control responsibilities for non-financial reporting must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external stakeholders such as investors, potential new employees, NGOs and regulators, all with different expectations from the organization.

COSO Framework	Leading practices in non-financial reporting	
Principles	**Objectives** "What objectives need to be in place to ensure leading non-financial reporting?"	**Examples of measures and controls** "What hard evidence (e.g. documentation, process, action) demonstrates that the objectives are in place?"
13. Information The organization obtains or generates and uses relevant, quality information to support the functioning of internal controls	• Reported non-financial information is relevant and material to key stakeholders • Reporting of financial and non-financial data is treated equally (e.g. timelines and audience) • Reporting of non-financial information has a global scope and reaches relevant organizations and geographies	• A materiality assessment determines the type of non-financial information that is being monitored and disclosed and the level of internal controls required • Non-financial KPIs are reported and reviewed on a regular basis by decision-makers, in accordance with materiality assessment and strategic review processes • Communication tools are in place to ensure information reaches relevant audience at all levels of the organization • Financial and non-financial reporting cycles are aligned for all business units and geographies

14. Internal communication The organization communicates information internally, including those objectives and responsibilities for internal control that are necessary to support the functioning of internal control	• Employees are regularly informed about the organization's sustainability strategy, programs, initiatives and performance • Employees are engaged in and aware of the non-financial reporting process, including internal control policies and procedures • Internal communications related to financial and non-financial data are treated with equal importance	• Non-financial information is communicated to the whole organization on a regular basis through multiple channels, e.g. e-mails, intranet, corporate events, helpline, ambassadors, etc. • Policies and procedures in place regarding internal controls of non-financial information are communicated to and easily accessed by relevant employees • Relevant employees can easily access all relevant non-financial information (e.g. historical data and reports, reporting principles, internal controls policies and procedures, internal scorecards)
15. External communication The organization communicates with external parties regarding matters affecting the functioning of internal control	• Key stakeholders are properly informed about the organization's sustainability strategy, reporting principles and performance • Stakeholders are aware of general internal controls in place regarding non-financial data • Financial and non-financial data are treated equally in external communications • Transparency meets key external stakeholder expectations	• The organization communicates relevant non-financial information on a regular basis to external stakeholders • Main internal controls are in place to ensure reliability of non-financial information are disclosed • The interconnectivity between financial and non-financial performance is clearly communicated to key stakeholders, including during investor meetings and earnings conference calls • Positive and negative results are treated equally in external communications

Monitoring Activities

Internal control systems associated with non-financial reporting need to be monitored a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate internal evaluations (e.g. by internal audit) will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. External assurance of non-financial information is conducted by an independent third party, usually on an annual basis. Internal control deficiencies identified by personnel involved in reporting, internal audit or external assurance should be reported upstream, with serious matters reported to top management.

COSO Framework	Leading practices in non-financial reporting	
Principles	**Objectives** "What objectives need to be in place to ensure leading non-financial reporting?"	**Examples of measures and controls** "What hard evidence (e.g. documentation, process, action) demonstrates that the objectives are in place?"
16. Evaluations The organization selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal controls are present and functioning	• Non-financial reporting and controlling processes are monitored on a regular basis to identify improvement opportunities • Non-financial reporting and controlling practices are aligned with external leading practices	• organization has implemented a formal and regular process to assess the design and effectiveness of its internal controls for non-financial reporting and to identify opportunities for improvement • Internal control framework with self-assessments of closing and reporting cycles are in place • Non-financial data are regularly audited by internal and/or external teams • External assurance is obtained for non-financial reporting
17. Deficiencies The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action	• Improvement opportunities identified regarding non-financial controlling and reporting are communicated to key individuals for decision-making and implementation	• Committee and/or individuals responsible for non-financial reporting review corrective actions/opportunities for improvement and approve action plan • Cross-functional initiatives to improve reporting and controlling approach are based on findings during evaluation processes • Internal audit and external assurance providers follow up management actions taken

Conclusion

The sustainability challenges that companies are facing in today's increasingly complex world are making them realize that traditional financially oriented management and corporate reporting are not helping investors and other stakeholders understand the financial and non-financial aspects of companies.

Various external reporting communities are developing regulatory and voluntary non-financial reporting standards, and are also increasingly requiring companies to report non-financial information. Individual companies are also developing specific programs that address such non-financial aspects. There is clearly a need for better non-financial information.

However, before any company can report accurate, material and useful non-financial information, it must first have confidence in the quality of its non-financial information, which is a function of the quality of its non-financial internal control environment. Thus the aim of this *Framework* is to help organizations achieve solid and relevant non-financial reporting to enhance decision-making.

Although we have made a good start, this *Framework* is very much still a work in progress. As next steps for its further development, we recommend the enlisting of organizations willing to use examples from their companies to help refine the Framework and develop supporting case studies. A handful of existing KPIs from these companies could be used to validate the objectives and examples of measures and controls proposed in the Framework. This process would help companies to understand not only how to improve the controls around these particular KPIs, but also where the *Framework* is serving as an effective tool and where it needs improvement.

Appendix: Development process

A systematic approach was used toward the development of the *Framework*, as follows:

Phase 1: Understanding non-financial reporting challenges

A two-stage approach was taken to assess the challenges associated with non-financial reporting faced by companies.

a. Consultation with sustainability professionals
Sustainability professionals in two WBCSD member companies and non-financial assurance providers in one accounting firm were asked to describe and comment upon the non-financial reporting challenges companies face. The following challenges were noted:

- Absence of standardized non-financial reports: There is a lack of uniformity in non-financial reporting between companies and even internally within companies that could generate distrust in the accuracy and quality of non-financial reporting. This includes the lack of consistency in terminology, KPI definitions, methodologies, assumptions, measurement units, boundary of consolidation, etc. Sustainability professionals recognize that future regulations will require corporations to disclose more non-financial information; thus the need for a convergence with financial reporting.
- Complex reporting processes and weak internal control environment: A key challenge highlighted was the need to clearly stipulate that non-financial reporting must be an integral part of the company's governance and control structure, and integral to operations. Challenges included difficulties in identifying and defining material issues and the lack of appropriate reporting processes, systems, controls, documentation, consistency across geographies, ownership and clear roles and responsibilities.
- Cost of third party assurance: To provide the required level of comfort, stakeholders demand third party assurance of non-financial information reported by companies. Without appropriate non-financial reporting processes, systems and controls in place, the effort and cost of external assurance are quite high.

b. Conduct literature review
Literature review included publications from consultancy firms, such as the big four accounting firms, and academic papers available online.

Phase 2: Alignment of expectations

a. Identify company expectations regarding non-financial reporting through surveys and one-on-one meetings with CFOs, controllers and other relevant individuals from selected WBCSD member companies. The involvement of finance departments in non-financial reporting, the level of internal comfort and assurance, and the areas of improvements envisioned by interviewees were identified.

Phase 3: Development of the *Framework*

a. Develop draft *Framework*
The COSO Internal Control-Integrated Framework was chosen to be the basis for the development of the *Framework* as it has been predominantly used since the mid-1990s for developing and monitoring internal controls over financial reporting via a formal system of checks and balances monitored by management and the board of directors. It is also widely used by WBCSD member companies. The same level of rigor can be applied to the recording, collection and reporting of non-financial information.

The challenges and expectations identified in phases 1 and 2 were used to select the parameters (i.e. objectives and the examples of measures and controls) and the associated content proposed in the draft *Framework* put forward for consultation.

b. Consult with WBCSD member companies
Feedback was obtained from sustainability, internal audit, and financial reporting experts from a wide range of multinational companies (those of the authors). The questions asked of the experts during the consultation period included:

- Objective: Does the draft *Framework* help the company assess the level of internal controls associated with non-financial reporting and improve data quality for decision-making?
- Audience: Is the draft *Framework* a useful tool? Why? For whom? When would you use it?
- Content: Is anything missing in the draft *Framework?* Should something be deleted? Is all the content clear? If so, what should be added, deleted or clarified?
- Format and user-friendliness: Would you know how to use the draft Framework? Should the draft *Framework* be structured in a different way? If so, how?

Based on the answers received, we have concluded that the draft *Framework* is a useful tool and the linkage to the COSO Internal Control-Integrated Framework is strongly supported and widely accepted (question 1). Initially we received feedback that the draft *Framework* was too extensive, with some overlaps, and that in certain cases it was too detailed and prescriptive. In direct response to the feedback we have rationalized and prioritized the objectives and examples of measures and controls in order to streamline the *Framework.*

With respect to the audience (question 2), the feedback was positive: the draft *Framework* could be beneficial for those functions involved in non-financial (sustainability) reporting, but also for assurance providers. Furthermore, the draft *Framework* could also be useful in training and educating professionals outside the sustainability area on sustainability concepts and reporting, as well as in providing information and knowledge to sustainability staff on the need and rationale for robust internal controls similar to those already present in financial reporting.

On the content side (question 3), we received very detailed feedback, and this is also where we made the majority of updates. We have rephrased “sustainability reporting” into ”non-financial reporting” as sustainability reporting can also include financial reporting. It was not always clear what the relationship was between the examples of measures and controls and the objectives, and why these were needed. We have thus prioritized key measures and explicitly stated that these are examples, and not a prescriptive list of controls per se, as some may be more relevant to one company than to others, depending on sector, size and level of maturity with respect to non-financial reporting topics.

There was also some duplication within the draft *Framework.* We have therefore reassessed each objective and the examples of controls and measures to ensure that we have linked them to the most relevant principles of the COSO Internal Control-Integrated Framework.

Extensive feedback on the risk assessment component was also received. Some of the risks in the COSO Internal Control-Integrated Framework are targeted towards financial risks and also include fraud risk. Fraud risk seems to be less relevant to non-financial reporting at present, although this can actually be applicable in case executive bonuses and employee incentives are tied to non-financial targets.

Based on feedback we also assessed the alignment of the Framework with the COSO Enterprise Risk Management (ERM) - Integrated Framework, but decided against doing so as our objective has been to focus on improving internal controls associated with non-financial reporting rather than risk management, which would be an extensive topic in itself.

In terms of format and user friendliness (question 4), we have tried to make the *Framework* leaner compared to the pre-consultation draft version. In addition, we have modified and aligned the language (in some cases tailored to the financial reality) so that the *Framework* could be easily read and understood by representatives of sustainability departments and functions responsible for non-financial reporting as well as those familiar with the terminology. Finally, we have accepted a valid suggestion from our reviewers to explain in our introduction section how the *Framework* is linked to other existing frameworks used for non-financial reporting.

c. Finalize *Framework*

Feedback received on the draft *Framework* was analyzed and considered for the development of the *Framework* presented in this document. Additional reviews were also conducted by WBCSD representatives and selected WBCSD Liaison Delegates.

Footnotes

1. Institute of Directors in Southern Africa: http://www.iodsa.co.za/?page=kingIII
2. International Integrated Reporting Council website: http://www.theiirc.org/
3. Consultation Draft of the International <IR> Framework: http://www.theiirc.org/consultationdraft2013/
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About the World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development is a CEO-led organization of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society and the environment. Together with its members, the Council applies its respected thought leadership and effective advocacy to generate constructive solutions and take shared action. Leveraging its strong relationships with stakeholders as the leading advocate for business, the Council helps drive debate and policy change in favor of sustainable development solutions.

The WBCSD provides a forum for its 200 member companies – which represent all business sectors, all continents and combined revenue of more than US$ 7 trillion – to share best practices on sustainable development issues and to develop innovative tools that change the status quo. The Council also benefits from a network of 60 national and regional business councils and partner organizations, a majority of which are based in developing countries.

www.wbcsd.org

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