



LBMA

LBMA RESPONSIBLE SOURCING PROGRAMME THIRD PARTY AUDIT GUIDANCE

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Introduction

Quick Guide:

This section provides an overview of the purpose of the LBMA Third-Party Audit Guidance and how the *Guidance* document should be read by auditors and refiners.

London Bullion Market Association (“LBMA”) requires all Refiners to comply with the LBMA Responsible Sourcing Guidance (“the Guidance”) to combat systematic or widespread abuses of human rights, to avoid contributing to conflict, comply with high standards of anti-money laundering and combating terrorist financing practice. In addition, the Guidance has been developed to recognise the increasing importance of having strong corporate governance and addressing environmental and sustainability responsibilities. Step 4 of the Guidance requires Refiners to arrange for an independent third-party audit of the supply chain Due Diligence. Annual third-party audits are required for any Refiner accredited by LBMA so as to ensure continuous monitoring and (where applicable) improvement of Responsible Sourcing practices.

The Guidance, together with the Third Party Audit Guidance, should be applied in good faith by Refiners and auditors and in the spirit of responsible engagement across Refiners’ supply chains. The notion of meaningful, measurable improvement should also underpin Refiners’ practices, where possible.

Definitions

AML-CFT: Anti-money laundering – combating the financing of terrorism.

Auditor: For the purpose of this document, an auditor refers to , assurance providers, , assessors or assessment team.

Assurance: The carrying out of assurance is referred to as an assurance engagement. This is defined by ISAE 3000 as follows:

- A process where a practitioner evaluates or measures a subject matter that is the responsibility of another party against suitable criteria;
- Based on that evaluation, an independent assurance report is prepared that expresses a conclusion to provide the intended users with a degree of confidence about the subject matter.

Beneficial Owner: The natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control (over 25%) over a legal person or arrangement.

Contribution to Conflict: Contribution to armed aggression between two or more parties which leads to human rights abuses. The parties in the conflict may include government, militia, organised criminals or terrorist groups.

Due Diligence: Research and analysis of a company or organisation done in preparation for a business transaction. Activities to be assessed based on Refiners' appetite should include those risks identified in the OECD Due Diligence Annex II, money laundering, as well as Environment, Sustainability and corporate governance responsibilities.

Environment: The totality of all the external conditions affecting the life, development and survival of an organism¹.

Follow-Up Audit: A separate audit of the Refiner's Corrective Action Plan relating to any high-risk non-compliances.

Grandfathered Stocks: Precious Metal investment products (ingots, bars, coins and grain in sealed containers) held in bullion bank vaults, central bank vaults, exchanges and Refineries with a verifiable date prior to 1 January 2012 for Gold, 1 January 2018 for Silver, and 1 January 2019 for Platinum and Palladium, which will not require a determination of origin. Grandfathered stocks include stocks held by a third-party on behalf of the listed entities.

High-Risk: For the purpose of this Guidance, high-risk may apply to any or all parts of a Precious Metal supply chain and any actor in a Precious Metal supply chain that is at a higher risk of being associated with or contributing to armed conflict, widespread violence, systematic or widespread human rights abuses, money laundering or financing of terrorism.

Human Rights: For the purpose of this Guidance, human rights are those defined in the International Bill of Human Rights. The Bill includes the Universal Declaration of Human Rights (1948), the International Covenant on Economic, Social and Cultural Rights (1966), the International Covenant on Civil and Political Rights (1966) as well as its two Optional Protocols².

ISAE 3000 Assurance Engagements: International Standard in Assurance Engagements ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) is a commonly applied standard for non-financial reporting engagements. It is issued by the International Auditing and Assurance Standards Board (IAASB). Key characteristics include:

¹ OECD definition

² UN Office of the High Commissioner on Human Rights: <http://www2.ohchr.org/english/law/>



- Three-party relationship (between company management, auditor and intended users of the assurance report);
- Designed to enhance the confidence of intended users;
- Evaluates the subject matter against the suitable criteria;
- Risk assessment, plan and perform assurance procedures to obtain sufficient appropriate evidence to form a conclusion;
- The output is an independent assurance report.

Know Your Customer (KYC): This is the process of a business identifying and verifying the identity of its counterparts and establishing the facts to have a clear understanding of the nature and background of the relationship.

Limited Assurance: A lower level of assurance where a negative form of expression is issued. The objective of a limited assurance engagement is to reach a conclusion that is meaningful and not misstated based on the work performed.

Mined Precious Metal: Precious Metal that originates from mines (large-scale, medium-scale or artisanal/small scale mines) and has never been previously refined. This term means any Precious Metal or Precious Metal-bearing material produced by or at a mine, in any form, shape and concentration until it is fully refined (995 parts per thousand or greater), fabricated into a Precious Metal Refiner product (for example bar, grain) and sold.

Money Laundering: The practice of disguising the origins of illegally obtained money. Ultimately, it is the process by which the proceeds of crime are made to appear legitimate. The money involved can be generated by any number of criminal acts, including drug dealing, corruption and other types of fraud. There are various methods by which money may be laundered and these can range in sophistication from simple to complex.

Mining By-product: Includes Precious Metal obtained from the mining of base metals - for example from lead, zinc, copper ore, in which Precious Metal may be a trace constituent. The origin of Mining By-product Precious Metal should be deemed to be the point at which trace Precious Metal is first separated from its parent mineral ore (for example the refinery). The Refiner's due diligence should ensure that false representations are not made to hide the origin of newly Mined Precious Metal through mining By-products.

Objective Evidence: Verifiable information obtained from documents, records, observations and/or statements of facts.

Politically Exposed Persons (PEPs): Foreign PEPs are individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials. Domestic PEPs are individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials. Persons who are or have been entrusted with a prominent function by an international organisation refers to members of senior management, i.e. directors, deputy directors and members of the board or equivalent functions. The definition of PEPs is not intended to cover middle-ranking or more junior individuals in the foregoing categories.

Precious Metal Refining: Metallurgical operations that add value and produce fine Precious Metal with a concentration of 995 parts per thousand or higher from Precious Metal and Precious Metal-bearing materials, usually beginning with lower concentrations, including ancillary activities such as sampling, laboratory analysis and assay, etc.

Reasonable Assurance: A higher level of assurance where a positive form of expression is issued. The objective of a reasonable assurance engagement is to reach an opinion on whether the subject matter is materially free from misstatement.



Recycled Precious Metal: Precious Metal that has been previously refined. This term traditionally encompasses anything that is Precious Metal-bearing and has not come directly from a mine in its first Precious Metal life cycle. In practical terms, recyclable material includes end-user, post-consumer products, scrap and waste metals, and materials arising during refining and product manufacturing, and investment Precious Metal and Precious Metal-bearing products. This category may also include fully refined Precious Metal that has been fabricated into grain, Good Delivery bars, medallions and coins that have previously been sold by a Refiner to a manufacturer, bank or consumer market, and that may thereafter need to be returned to a Refiner for verification and/or re-refining to reclaim their full financial value.

Refiner: An entity that carries out Precious Metal Refining.

Supplier: This term refers to any individual or organisation who is considered to be a participant in the supply chain for the supply of Precious Metal and Precious Metal-bearing materials.

Sustainability: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs³.

Terrorist Financing: Terrorist financing includes the financing of terrorist acts, terrorists and terrorist organisations.

Transaction: A specific amount of Precious Metal-bearing material, self-contained and identifiable as a separate entity in the Refiner's records as material received and processed by the Refiner. A transaction may be referred to as lot, sub-lot, batch, package, shipment or any other separate entity.

Verifiable Date: A date that can be verified through inspection of physical date stamps on products and/or inventory lists. The requirements applicable to Refiner's grandfathered stocks with a subsequent date, or without a verifiable date, are the same as for other Precious Metal-bearing material; that is, a Refiner must provide the same level of source/mine documentation.

World Heritage Site: A landmark or area which is selected by The United Nations Educational, Scientific and Cultural Organisation (UNESCO) as having a cultural, historical, scientific or other form of significance, and is legally protected by international treaties. The sites are judged important to the collective interests of humanity.

³ Brundtland definition of Sustainability

1. Third-Party Audit Guidance

The LBMA Third-Party Audit Guidance is intended for use by auditors who have been engaged to perform a third-party audit of the Refiners' Precious Metal supply chain in accordance with Step 4. It sets out guidance on the application of audit concepts and requirements specific to these types of audit engagements. This document also provides practical guidance on audit testing, audit deliverables and the audit implications associated with non-compliances.

Refiners should refer to this document (along with the LBMA Toolkit and Management Guidance) to understand the elements of the third-party audit and to assist them in establishing monitoring activities over their compliance with the Guidance. Refiners will be asked to justify any substantive deviations from the Toolkit (comply or explain).

Refiner's Public Report

Refiners are required to prepare and publish a "Refiner's Compliance Report," which summarises details of how the Refiner has complied with the requirements of the LBMA Responsible Sourcing Guidance, including a description of activities and overall conclusion.

Audit Scope

To provide a reasonable or limited assurance conclusion on whether the Refiner's Compliance Report describes fairly the activities undertaken to demonstrate compliance, and that management's overall conclusion is in accordance with the requirements of the LBMA Responsible Sourcing Guidance.

Use of the Third-Party Audit Guidance and audit standards

This document provides guidance on the application of ISAE 3000 to this specific type of engagement and on potential assurance issues that may arise when performing this type of engagement. It is intended for use by auditors who plan to perform ISAE 3000 type assurance engagements and provides technical guidance in the application of ISAE 3000 requirements to promote quality and consistency in the conduct of assurance engagements across LBMA Good Delivery Refiners.

The Third-Party Audit Guidance is not intended to be an assurance standard, and the expectation is that auditors will apply the requirements of ISAE 3000.

Note: In some jurisdictions, there may be alternative assurance standards that can be applied. This includes local assurance standards issued by International Federation of Accountants (IFAC) member bodies that comply with or are equivalent to the requirements of ISAE 3000.

ISAE 3000 engagements are designed to be used with the International Standard on Quality Control (ISQC) 1 issued by the International Ethics Standards Board for Accountants (IESBA), which establishes minimum quality control standards.

Type of Engagement

The auditor issues an independent assurance report for the stated reporting period, which expresses a conclusion designed to enhance the degree of confidence of intended users in the Refiner's reporting on compliance with the LBMA Responsible Sourcing Guidance.

For these types of engagements, a three-party relationship exists between the auditor, responsible party and intended users of the report. Appendix 2 explains the responsibilities of the three-party relationship with respect to the LBMA Responsible Sourcing Guidance assurance engagement.

The auditor must undertake a number of responsibilities throughout the engagement. This includes performing a risk assessment, planning and performing assurance procedures, gathering sufficient appropriate assurance evidence and performing an overall evaluation to form the assurance conclusion.

Assurance procedures are designed by the auditor based on the output of the auditor's planning and risk assessment, which is unique for each engagement. Risks are considered when there exists a reasonable possibility of a material misstatement in the disclosures in the Refiner's Compliance Report. It is therefore



not possible to prescribe the assurance procedures that should be performed (or the sample sizes to be selected). Some example assurance activities are provided in Appendix 3.

Deliverables

The audit deliverables are:

Independent assurance report addressed to the Refiner's Board of Directors or management, which states the auditor's conclusion. The assurance report should be publicly disclosed alongside the Refiner's Compliance Report; and the Management Report, which includes details on assurance findings and recommendations for correction actions.

The Countries of Origin Annex which lists the countries of origin and amounts of mined and recycled Precious Metal received during the assessment period which does not have to be made public.

1.1 Implementation of Responsible Sourcing Guidance, Step 4

Quick Guide:

This section defines the Refiner's location(s) and operation(s) covered by Step 4 of the *LBMA Responsible Sourcing Programme*.

Implementation of Step 4 of the LBMA Responsible Sourcing Guidance is mandatory for LBMA Good Delivery Precious Metal Refiners. Precious Metal Refineries that are not producing Good Delivery Precious Metal bars may access the Guidance and may choose to apply any or all aspects to their operations.

Each individual Refiner accredited with LBMA must be subject to a separate audit.

The audit scope does not cover operations of business partners of the Refiner or operations of a Refiner that are not related to Precious Metal Refining.

For each site visited by the auditor, all organisational units involved in the Refiner's Precious Metal supply chain Due Diligence measures for Precious Metal-bearing material are to be considered during the audit. All Precious Metal-bearing material received within the audit period for the purposes of Precious Metal refining shall be included in the audit scope. This includes any mined, recycled or grandfathered Precious Metal-bearing material received by the Refiner.

Precious Metal-bearing material that, due to its properties (for example low Precious Metal content) or requirements for processing, presents minimal risks to contribute to conflict or other forms of human rights abuse in the supply chain is excluded from the third-party audit. This also includes Precious Metal obtained from the mining and processing of other metals such as copper sulphide and oxide ores as well as low-value industrial by-products such as furnace flue dust, spent crucibles and floor sweepings, or residue cell slimes from refining of other metals. However refiners must ensure that no Precious Metal is sourced from an area designated as a World Heritage Site. This requirement also applies to Precious Metal that has been produced even as a by-product from the mining of any other metals (for example, copper).

1.2 Timing of Audits

Quick Guide:

This section outlines the frequency of third-party audits required under the *LBMA Responsible Sourcing Programme*.

Refiners producing Good Delivery Precious Metal bars were required to commence implementing the LBMA Responsible Sourcing Guidance from 1 January 2012 for Gold, 1 January 2018 for Silver, and 1 January 2019 for Platinum and Palladium. The first audit is recommended to take place no later than three (3) months following the completion of the Refiner's first annual financial reporting period.



Refiners must issue their Refiner's Compliance Report and obtain independent assurance within three (3) months following their financial year-end.

Audit Frequency

First year and every three years: Reasonable assurance. This may also be chosen by the Refiner for every year.

Every 12 months: Limited assurance. This may be performed annually for the two years in between a reasonable assurance engagement. Limited assurance may only be carried out if the Refiner was fully compliant the previous year.

Within 90 days following a third-party audit: Follow-up audit to a reasonable assurance level. This is applicable where the Refiner has any high-risk non-compliances, reasonable assurance on the Corrective Action Plan within 90 days following the release of the Refiner's Compliance Report.

1.3 Harmonisation of Efforts for Responsible Sourcing

Compliance with international regulations

The LBMA Responsible Sourcing Guidance is based on the five-step framework for risk-based Due Diligence contained in the OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas adopted on 15 December 2010 and follows the requirements detailed in the OECD Precious Metal Supplement adopted on 17 July 2012. Also, the United States Securities and Exchange Commission (SEC) final rules for Conflict Minerals (Dodd-Frank Section 1502) indicate that manufacturers can meet US requirements by relying on Refiners who have been certified by "industry groups' 'conflict-free' designation programmes" such as LBMA.

As such, LBMA third-party audit deliverables may be used as supporting evidence to demonstrate compliance with or implementation of the following recommendations or requirements:

- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, including the Supplement on Precious Metal;
- Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, including any rules issued by the US Security and Exchange Commission.

Existing standards or certifications

LBMA is committed to harmonisation of requirements with other Precious Metal supply chain initiatives and the evaluation of a Refiner's compliance to the LBMA Responsible Sourcing Guidance is neither intended to duplicate existing auditing arrangements nor require these to be re-performed. Audit reports or results from independent third-party verifications carried out under the framework of other Precious Metal supply chain initiatives or anti-money laundering efforts may be used by the auditor as evidence to assess compliance with LBMA requirements.

LBMA recognises that Refiners may already have internal or external assurance processes that can be relied on. These include:

- Responsible Minerals Initiative (RMI) formerly the Conflict-Free Sourcing Initiative (CFSI), in particular the Precious Metal Supply Chain Transparency – Refinery Audit Protocol;
- Responsible Jewellery Council, in particular the Chain of Custody Standard;
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, including the Supplement on Precious Metal;
- World Gold Council (WGC) Gold Council Conflict-Free Precious Metal Standard, in particular the Management Statement of Conformance Documentation that Precious Metal-mining companies provide to Refiners;
- Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, including any rules issued by the United States Securities and Exchange Commission;
- Fairtrade and Fairmined Standard for Precious Metal from Artisanal and Small-Scale Mining, including Associated Precious Metals;



- Responsible Artisanal Gold Solutions (RAGS) Forum
- Code of Risk-Mitigation for Artisanal and Small-Scale Mining Engaging in Formal Trade (CRAFT);
- Initiative for Responsible Mining Assurance (IRMA) Certification;
- International Council on Mining and Metals (ICMM) Code of Conduct;
- Regulatory anti-money laundering audits.

The above list is not exhaustive and may change over time.

However as the scope of these initiatives currently differ from one another and do not completely address the requirements of the LBMA Responsible Sourcing Guidance all LBMA Good Delivery Refiners must undergo an LBMA Responsible Sourcing Audit.

Internal Audits and Other Third-Party Service Providers

Refiners may have an internal audit function that regularly evaluates the procedures, processes and controls that the operations have in place with regard to the areas covered by the LBMA Responsible Sourcing Guidance. Furthermore, the Refiner may have work performed by other third-party service providers or subject matter specialists. The auditor may be able to rely on the results of this work as part of the LBMA third-party audit. Where this is possible, the Refiner and its auditor should consider existing auditing processes, confirm where applicable the extent to which these may be relied upon and complement them as needed.

Where it is possible to rely on work undertaken by a Refiner's internal audit, SOX process or any other acceptable auditable process, the auditor should consider the scope of these internal reviews to understand how it relates to the scope of the LBMA Responsible Sourcing Guidance assurance report activities and whether the internal audit team has sufficient competencies to audit the subject matter in question.

Where further clarity may be required to use the work of internal audit, the engagement team may refer to the requirements of International Standard on Assurance (ISA) 610 Considering the Work of Internal Audit or equivalent guidance.

Where the work performed of other third-party service providers or subject matter specialists are planned to be used by the auditor, they should refer to the requirements of ISA 620 Using the Work of an Auditor's Expert or equivalent guidance.

1.4 Auditor Qualification

Quick Guide:

This section defines the skills and competencies auditors are required to demonstrate to carry out a LBMA third-party audit.

It further describes the processes that auditors are requested to complete in order to be listed as an approved 'service provider' on the LBMA website.

The LBMA Executive publishes a list of Approved Service Providers on the LBMA website (www.lbma.org.uk). The list is regularly reviewed and maintained up to date.

The auditor (referred to as service provider in this section) must be able to fulfil the following requirements:

- **Independence:** The service provider must have complete financial and other independence from the Refiner. In particular, the auditing body shall not provide services for the Refiner related to the design, establishment or implementation of the Refiner's Precious Metal supply chain practice for a period of at least 24 months prior to the engagement.
- **Institutional capacity:** The service provider must have adequate organisational capacities including:
 - A robust system of quality control, including minimum requirements for independence, conflicts of interest, ethics and audit quality control reviews to be followed;



- The capacity to process appeals and/or handle complaints.

Service providers must ensure that any individual or group of auditors carrying out a third-party audit of a Refiner is independent from the auditee. The lead auditor should take responsibility for the audit process and play an active part in the assessment/assurance. In addition, the individual or group of auditors must collectively possess the skills, knowledge and experience required to competently perform the assurance engagement. In order to ensure audits are being performed consistently, and to a high standard, LBMA reserves the right to witness the performance of audits.

The service provider should only accept the engagement where they are satisfied that they possess (either individually or as a group of auditors) the necessary skills and competencies, and resources, including but not limited to:

Personal Competences

- Ability to apply knowledge and skills;
- Improvement of competencies;
- Specialist knowledge and competence in auditing skills and techniques;
- Ability to apply reporting and auditing practices and standards;
- Experience in non-financial assurance.

Core Principles

- Ethical conduct;
- Fair presentation;
- Due professional care;
- Independence;
- Integrity.

Subject Matter Expertise

- Knowledge of and experience in the Precious Metal Refining industry;
- Knowledge of and experience in supply chain Due Diligence principles, procedures and techniques;
- Understanding of Precious Metal procurement practices and Precious Metal supply chains;
- Knowledge of and experience in the implementation of the LBMA Responsible Sourcing Guidance and other initiatives to increase transparency and Due Diligence in the Precious Metal supply chain and, in particular, knowledge of the OECD Due Diligence Guidance for Responsible Supply Chain of Minerals from Conflict-Affected and High-Risk Areas;
- Knowledge of and experience in regulations and best practices regarding Anti-Money Laundering and Financing of Terrorism;
- Knowledge of Environment, Sustainability and corporate governance responsibilities;
- Knowledge of local context, including social, economic, political and cultural considerations, of conflict-affected and/or high-risk areas.

Service providers shall submit an application supported by sufficient evidence, in the format defined by the LBMA Executive, to demonstrate fulfilment of all of the above-described requirements. The LBMA Executive shall review the information and auditors/auditing bodies may provide any additional clarification as required to support its decision.

Refiners must select a service provider from the list of Approved Service Providers.

The Executive shall regularly review the information submitted by auditing bodies in order to determine if any of the changes disclosed affect the auditing body's ability to remain on the LBMA list of recommended auditing bodies. All personnel engaged in LBMA Responsible Sourcing Guidance audits should receive appropriate training to ensure they are aware of developments in this area. If there are relevant changes in personnel at an auditing body (for example auditors joining/leaving) LBMA must be informed. If necessary, the list of recommended auditing bodies shall be updated with any changes.

1.5 Person-Day Guidelines

When determining the time necessary to complete the on-site audit for each Refiner, the auditor is recommended to use the following Guidance criteria (additional guidelines can be found in Appendix 4):

- The type of assessment: reasonable or limited assurance;
- The geographical location of each site (more time is required for the on-site audit of locations in conflict-affected or high-risk areas);
- Size and complexity of operations for each site. Criteria to determine size and complexity of a site may include: the number of transactions in the audit period, the number and risk level of Precious Metal supplying counterparties and the overall size of operations;
- Risk of non-compliance for each site. Examples of information to determine risk of non-compliance include: availability of pre-audit information, participation in other Precious Metal supply chain initiatives, previous audit findings or results, publicly available information on business partners and Precious Metal supply chain practices;
- Previous years' audit report findings and presence of existing non compliances, knowledge of changes in sourcing activities or risk profile, or general industry or market developments that may require specific attention.

2. Third-Party Audit of Supply Chain Due Diligence

Quick Guide:

These sections are primarily intended as guidance for the auditor carrying out the third-party audit. Refiners should refer to them for more information on the preparation as well as the actual engagement.

Auditors are encouraged to engage with both the refiner and LBMA to discuss industry trends, relevant concerns and evolving expectations of implementation. LBMA also encourages auditors to challenge refiners' findings and discuss recommendations, sourcing developments and any other relevant information provided by LBMA.

Auditors are encouraged to engage with both the Refiner and LBMA to discuss industry trends, relevant concerns and evolving expectations of implementation. LBMA also encourages auditors to challenge Refiners' findings and discuss recommendations, sourcing developments and any other relevant information provided by LBMA.

The auditor must undertake a number of responsibilities throughout the engagement. This includes risk assessments, planning and performing assurance procedures, gathering sufficient appropriate assurance evidence and performing an overall evaluation to form the assurance conclusion. Although assurance activities are an iterative process, they can be divided into three distinct phases, as demonstrated below.



This section sets out guidance to auditors who have been engaged to report, in accordance with recognised assurance standards, on whether the Refiner's Compliance Report describes fairly the activities undertaken during the year to demonstrate compliance with the LBMA Responsible Sourcing Guidance.

For this type of assurance engagement, a three-party relationship must exist between the auditor, responsible party (the Refiner) and intended users of the report. The three-party relationship consists of:

- *Auditor* – an individual or group of practitioners that collectively possess the skills, knowledge and experience required to competently perform the assurance engagement;
- *Responsible party* – the party (i.e. the Refiner) responsible for the reported subject matter information;
- *Intended users* – the parties for whom the reported subject matter information is prepared.

It is recommended that auditors refer to Appendix 2, which explains the responsibilities of the three parties for this type of engagement.

2.1 Refiner's Compliance Report

The LBMA Responsible Sourcing Guidance requires that Refiners report publicly on their compliance on an annual basis for activities over a 12-month reporting period. This report on compliance is referred to as the 'Refiner's Compliance Report', and the descriptions of the activities and conclusions contained within this are the subject of independent assurance. The intention is that the Refiner's Compliance Report and the accompanying independent assurance report will be available to the LBMA Executive and disclosed publicly.

Step 5 of the LBMA Responsible Sourcing Guidance requires that the Refiner's Compliance Report include the following information:



- Name of Refiner;
- Time period of compliance;
- Summary of activities undertaken during the period to demonstrate compliance;
- Refiner's statement of compliance with each step of the LBMA Responsible Sourcing Guidance;
- Management conclusion statement on the compliance with the LBMA Responsible Sourcing Guidance.

The Refiner should assess whether on balance it is in compliance, and provide an overall 'Yes' or 'No' conclusion statement. For example, if the Refiner disclosed that it fully complied with each of the five steps, it should answer 'Yes' to overall compliance. If the Refiner disclosed it had a 'non-compliance' to one of the steps, then it would answer 'No' to overall compliance. In a situation where the Refiner has 'partial' non-compliance for one of the steps and believes that it should remain in compliance overall, it should state 'Yes' to overall compliance and disclose its reasons.

LBMA acknowledges that a 'Yes' response by the Refiner with respect to its conclusion on overall compliance does not mean that the Refiner is in absolute compliance with the requirements of the LBMA Responsible Sourcing Guidance for the reporting period stated. For example, there may be minor inconsistencies in low-risk and non conflict-affected areas or low-risk deviations from conformance that individually or collectively, represent an insignificant risk to the integrity of the LBMA system.

2.2 Guidelines on the Application of Assurance Concepts

Scope of the assurance engagement

The scope of the assurance engagement is to provide a reasonable or limited assurance conclusion on whether the Refiner's Compliance Report describes fairly the activities undertaken during the year to demonstrate compliance and on management's overall conclusion is in accordance with the LBMA Responsible Sourcing Guidance.

Assurance subject matter

The assurance subject matter is the underlying information that goes into forming the Refiner's Compliance Report. For example, the internal processes that the Refiner describes and that form part of its compliance activities.

For the auditor to be satisfied that they agree with the Refiner's conclusions, including that they are made in accordance with the LBMA Responsible Sourcing Guidance, they need to plan and perform assurance procedures to gather evidence to support either reasonable or limited assurance conclusions.

The LBMA Responsible Sourcing Guidance requires Refineries to undertake Precious Metal supply chain Due Diligence along the entire precious metal supply chain consistent with anti-money laundering principles as well as the 'five steps' framework for risk-based Due Diligence of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, as described in the LBMA Responsible Sourcing Guidance. In addition, the Guidance has been developed to recognise the increasing importance of having strong corporate governance and addressing environmental and sustainability responsibilities

For circumstances where judgement is applied by the Refiner, the auditor needs to understand the process the Refiner followed in order to be comfortable that the Refiner has satisfactorily addressed the steps as set out in the LBMA Responsible Sourcing Guidance. For example, the auditor should consider whether:

- The Refiners definition of 'high-risk supply chain' includes the minimum criteria as set out in the LBMA Responsible Sourcing Guidance (Step 2);
- The underlying sources used by the Refiner to determine 'conflict-affected areas' are relevant and reliable;



- The database used by the Refiner to check that the counterparty and beneficial owners are not named on any government lists as wanted money launderers, known fraudsters or terrorists is complete and reliable.

Assurance suitable criteria

The reporting criteria consists of the requirements set out within the LBMA Responsible Sourcing Guidance, supplemented by how a company applies them at a more detailed level such as through policies, procedures and internal controls. As the LBMA Responsible Sourcing Guidance is principle based, the Refiner's interpretation of the requirements is important. For example, the Refiner's supply chain policy document (or similar internal methodology document) would form part of the criteria, which the auditor is responsible for assessing the suitability thereof.

The auditor has to assess how the Refiner has applied the requirements of the LBMA Responsible Sourcing Guidance through the development of its own policies and controls in order to achieve suitable criteria. The five characteristics of suitable criteria set out by ISAE 3000 are:

- **Relevance:** the application of information sources used has a logical connection to the LBMA Responsible Sourcing Guidance;
- **Completeness:** all relevant factors that could affect the conclusions are not omitted;
- **Reliability:** the Refiner's application is consistent across its operations and suppliers;
- **Neutrality:** the information sources used to inform the Refiner's conclusions are free from bias;
- **Understandability:** the Refiner's conclusions and the reasons behind them are clear.

The auditor needs to assess whether the Refiner's Compliance Report contains sufficient information regarding the Refiner's application of the LBMA Responsible Sourcing Guidance. Information can be referred to in the Refiner's Compliance Report, but be disclosed elsewhere (for example company website).

In the event that the auditor's assessment indicates the Refiner's application of the LBMA Responsible Sourcing Guidance is not suitable, the auditor should discuss the impact of the required changes to the application of the LBMA Responsible Sourcing Guidance with the Refiner. If the application of the LBMA Responsible Sourcing Guidance is not altered, the assurance practitioner should consider the impact on the assurance report, and if they should issue a qualified conclusion.

Assurance Evidence

The auditor will plan the assurance procedures to be performed. Examples of types of evidence-gathering activities that an auditor may perform are contained in Appendix 3.

Level of Assurance

LBMA requires that a reasonable assurance level is performed in the first year of reporting and every three years after (for further information, refer to Section 1.3. Timing of Audits). There is a greater extent of testing and evidence gathering for reasonable assurance, and it therefore provides a higher degree of comfort to users of the report that the Refiner has reported in accordance with the requirements of the LBMA Responsible Sourcing Guidance.

Limited assurance can be performed annually for the two years in between. It is also possible for the Refiner to elect reasonable assurance for each year.

In practice, the level of work associated with limited assurance engagements can vary. The assurance procedures performed by the auditor may be restricted primarily to enquiries or analytical procedures, or involve further testing in certain areas, for example transactional systems or processes relating to supplier Due Diligence.

Modified Assurance Conclusions

A modified assurance conclusion may result where:



- The Refiner has a material non-compliance and the auditor does not believe that this has been adequately disclosed in the Refiner's Compliance Report;
- Circumstances may prevent an auditor from obtaining sufficient appropriate assurance evidence to provide an unqualified opinion. This may include restrictions placed upon the assurance testing activities by the company, data gaps or a lack of controls.

Where appropriate, the auditor should encourage the Refiner to describe potential issues within the Refiner's Compliance Report, so as to enable an unmodified assurance report to be issued.

The auditor may include an emphasis of matter paragraph to draw to the user's attention to the item(s) already disclosed in the Refiner's Compliance Report.

Depending on the extent to which a non-compliance exists, it may not be appropriate to issue an unmodified assurance report, even if the circumstance has been described in the Refiner's Compliance Report.

Materiality

Information is material if its omission or misstatement could influence relevant stakeholders, for example the LBMA Executive and other users of the Refiner's Compliance Report, to make sound judgements about disclosures that matter to them.

As part of the planning and risk assessment stage, the auditor should consider potential relevant material misstatements that may be relevant in Steps 1 to 5 of the LBMA Responsible Sourcing Guidance.

The auditor applies judgement as to whether the misstatements are material. They may also use the criteria contained within Appendix 1, as these may result in a material misstatement in the Refiner's Compliance Report if not reported accurately.

The materiality of misstatements must be considered individually and in aggregate with all misstatements. Some items may also be material by their omission.

The auditor should maintain a summary of uncorrected misstatements throughout the engagement. Individually or in combination, these considerations should determine whether misstatements may affect the decisions of a user of the Refiner's Compliance Report and the impact on the assurance report.

Where there are material misstatements that have arisen, the auditor should question the effectiveness of internal controls and, if deemed necessary, expand testing to assess whether there are any material concerns and implications to their assurance report.

Assurance Report

The assurance report is prepared by the auditor and discloses details of the assurance engagement and the conclusion. The assurance report should be publicly disclosed with the Refiner's Compliance Report or clearly sign posted to where it can be accessed.

In addition to the mandatory ISAE 3000 disclosures, the assurance statement should include the following statements (but not be limited to):

- The scope of the assurance engagement consists of the Refiner's Compliance Report;
- For 'limited assurance', a description of the assurance procedures performed;
- Assurance conclusion on whether the Refiner's Compliance Report describes fairly the activities undertaken during the year to demonstrate compliance, and management's overall conclusion, is in accordance with the LBMA Responsible Sourcing Guidance; and
- A declaration statement stating that the auditor satisfies the competency requirements.

ISAE 3000 does permit the assurance report to be expanded to include other information and explanations that are not intended to affect the auditor's conclusion, such as key observations or findings made as part of the assurance engagement. However, there is a risk that the inclusion of additional findings is



subjective, and may undermine the conclusion and confuse the reader of the report. It may be preferable for the Refiner to report on any observations for improvement within the body of the Refiner's Compliance Report, as distinct from the assurance report.

The Management Report issued by the auditor is the formal mechanism for communicating observations to the Refiner.

3. Reporting

Quick Guide:

This section provides an overview on the information that Refiners are required to publicly report as well as the reports from a third-party audit that will be shared with the LBMA Executive.

3.1 Public Reporting by Refiners

Step 5 of the LBMA Responsible Sourcing Guidance requires that Refiners publicly report on their Precious Metal supply chain Due Diligence policies and practices, with appropriate regard for security, proprietary information and the legal rights of the other supply chain actors. The deliverables resulting from a third-party audit support the LBMA's objective for transparency in this regard.

The Refiner must publish the following information, in line with the requirements of the Precious Metal Supplement to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas:

- Refiner details and date of the audit;
- Audit activities;
- Audit conclusion for each step of the LBMA Responsible Sourcing Guidance.

This information is included in the Refiner's Compliance Report.

Public-facing elements of the Report will be published on the LBMA website.

Refiners must also make their Precious Metal supply chain Due Diligence policies publicly available, in English, on their website. These policies should be updated annually, reflecting developments in sourcing activities and reporting on any responsible sourcing initiatives or projects. Refiners and auditors should refer to the model supply chain policy in Annex II of the OECD Guidance. Refiners' policies are within scope of the audit.

Public Reporting Requirements

What should be published?

Refiner's Compliance Report and independent assurance report. Not including Country of origin data.

Who is responsible for publication?

Refiner.

What needs to be submitted to the LBMA Executive?

Refiner's Compliance Report, independent assurance report and Corrective Action Plan (if medium-risk, high-risk or zero-tolerance non-compliances were identified). Countries of Origin of Precious Metal (both mined and recycled), and amount received from each country, for the assessment period.

Who is responsible for submission?

Refiner or auditor (to be agreed between these two parties), except the Corrective Action Plan, which the Refiner is responsible for submitting.

3.2 Deliverables

Quick Guide:

This section provides a detailed overview of the deliverables that the auditor is required to prepare following a third-party audit based on the ISAE 3000 Standard.



The auditor is recommended to provide two deliverables to the Refiner at the conclusion of the assurance engagement.

The assurance deliverables should be provided following the Refiner's final approved version of the Refiner's Compliance Report. The auditor may request that the Refiner sign a representation letter, which sets out the Refiner's responsibilities, including an explicit statement that the Refiner has established processes and controls, in order to be satisfied that they are in compliance with the LBMA Responsible Sourcing Guidance.

The two assurance deliverables are:

Independent Assurance Report

The report is addressed to the Board of Directors or Management, and states the auditor's conclusion. The assurance report should be publicly disclosed alongside the Refiner's Compliance Report or clearly sign-posted to where it can be accessed.

The intention is that the Refiner's Compliance Report and the accompanying independent assurance report will be available to the LBMA Executive and disclosed publicly. The Annex detailing Countries of Origin for mined and recycled Precious Metal and amounts (Kgs.) received from each origin is confidential and whilst available to the LBMA Executive, is not disclosed publicly unless the Refiner chooses to do so.

An auditor's consent to the assurance report being published is because publication of the assurance report is a requirement of the LBMA Responsible Sourcing Guidance. Consent and publication of the report are not intended to indicate that auditors accept any liability to parties other than their clients.

There is no requirement that the auditor submits a copy of the independent assurance report directly to the LBMA Executive. The LBMA Executive requires that it receives the final version, but does not have a preference as to whether a copy is sent from the Refiner or auditor. The auditor should discuss with the Refiner the method of providing the report to the LBMA Executive.

Management Report

This report is addressed to the Refiner. It is recommended that the Management Report include the following information:

- Name of the Refiner;
- Reporting period subject to assurance;
- Assurance team's professional qualifications;
- Confirmation of the auditor's independence;
- Assurance scope and level of assurance;
- Summary of assurance procedures;
- Any significant or inherent limitations or areas not covered;
- Assurance observations, findings and recommendations for improvement;
- Specific observations with respect to the Refiner's Corrective Action Plan and implementation progress;
- Assurance conclusion (or reference to the conclusion within the independent assurance report);
- Countries of Origin Annex for mined and recycled Precious Metal including the amounts (Kgs.) received from each origin; and
- Other relevant information.

The Management Report is prepared by the auditor. Its content is for the benefit of the Refiner and its contents are not disclosed publicly. A copy should be provided to the LBMA Executive as part of the mandatory deliverables.

4. Third-Party Audit Follow-Up

Quick Guide:

This section defines the responsibility of a Refiner to define appropriate corrective actions for any non-compliance with one or more requirements of the *LBMA Responsible Sourcing Programme*. It further describes the process to communicate corrective actions determined by the Refiner to the LBMA Executive.

4.1 Corrective Action Plan

When there are medium-risk, high-risk or zero-tolerance non-compliances with one or more of the requirements as set out in Steps 1 to 5 of the LBMA Responsible Sourcing Guidance, the Refiner shall prepare a Corrective Action Plan. Non-compliances may be identified by the Refiner as part of its self-assessment or by the auditor.

For each non-compliance, the Corrective Action Plan must include:

- A description of the non-compliance or observation;
- Reference to the relevant section in the LBMA Responsible Sourcing Guidance;
- Assigned risk rating of the non-compliance;
- Corrective actions to be taken for each non-compliance identified;
- The timeframe for completion of corrective actions for each non-compliance identified; and
- The person responsible for the implementation of each corrective action.

It is the responsibility of the Refiner to complete the Corrective Action Plan. Guidance criteria for the risk ratings applied to each non-compliance (including medium-risk, high-risk or zero-tolerance) are set out in Appendix 1.

Corrective actions identified shall be specific, measurable, achievable, timely, appropriate and effective in addressing the root cause of the non-compliance.

The timeframe for the implementation of corrective actions must be realistic and cannot exceed:

- Three months for any medium-risk non-compliance;
- Onemonth for any high-risk non-compliance;
- Any zero-tolerance non-compliance must be addressed immediately.

A copy of the Refiner's Corrective Action Plan for all non-compliances (medium-risk, high-risk or zero-tolerance) should be provided to the LBMA Executive.

Refiners may report low risk non compliances in their compliance report or include them in the Corrective Action Plan. Inclusion of low-risk non-compliances in a Refiners compliance report would provide positive proof of a commitment to continuous improvement.

The Corrective Action Plan should be reviewed by the auditor as part of their assurance testing. The Refiner is responsible for submitting the Corrective Action Plan to the LBMA Executive (recommended to be provided at the same time as a copy of the Refiner's Compliance Report and independent assurance report is submitted). A Corrective Action Plan only should be submitted to the Executive if medium-risk, high-risk or zero-tolerance non-compliances are identified.

4.2 Implication of Non-Compliance

Quick Guide:

This section outlines the consequences for a Refiner should non-compliance(s) with the *LBMA Responsible Sourcing Programme* be identified, including where follow-up assessments/audits are required.

Non-compliances (medium-risk, high-risk or zero-tolerance) must be reported by the Refiner in the Corrective Action Plan. The following assurance implications must be considered for Correction Action Plans as part of the annual assurance engagement.

It is recommended that auditors:

- Include any low-risk deviations from conformance identified by the auditor in the Management Report (refer to Appendix 1 for definition). The Refiner should address any low-risk deviations from conformance as part of normal business practice and as part of their continuous improvement activities;
- Review the Refiner's Corrective Action Plan, and assess whether it includes all relevant information and is completed in accordance with the requirements;
- Review the implementation of corrective actions identified in the previous period;
- Consider whether there are any implications to the disclosures in the Refiner's Compliance Report. There should be consistency between the content reported in the Corrective Action Plan and the Refiner's Compliance Report. For example, if there is a high-risk non-compliance, then the Refiner's Compliance Report should include a description of the non-compliance and, in relation to that Step, a 'non-compliance' statement should be disclosed in the relevant section of the Refiner's Compliance Report;
- Where the auditor identifies a non-compliance (medium-risk, high-risk or zero-tolerance) as part of their assurance procedures, it is recommended that they communicate this with the Refiner immediately so that the Refiner can start to implement a Corrective Action Plan;
- Consider any implications to the planned assurance procedures and, if considered necessary, expand testing to assess whether there are material concerns and implications to the assurance report;
- Encourage the Refiner to appropriately describe details of the non-compliances (medium-risk, high-risk or zero-tolerance) in its Refiner's Compliance Report in order to be able to issue a non-qualified opinion.

Any instances of zero-tolerance non-compliance must be reported by the auditor to those charged with governance at the Refiner within 24 hours and communicated to the LBMA Chief Executive.

4.3 Re-assessments

Quick Guide:

This section provides an overview of the continuous improvement and ongoing monitoring process for refiners.

It describes the different types of re-assessments/assurance engagements a refiner is required to undergo so as to remain in compliance with the *LBMA Responsible Sourcing Programme*.

Level of assurance

In the first year and every three (3) years, a reasonable assurance engagement must be performed. Limited assurance can be performed annually for the two years in between a reasonable assurance engagement. It is also possible for the Refiner to elect reasonable assurance for each year. The LBMA Executive may at its discretion request to the Refiner that a reasonable assurance engagement be performed more regularly.

Follow-up audits

Where the Refiner has any high-risk non-compliances, LBMA recommends that the auditor performs a 'follow-up audit' to a reasonable assurance level within ninety (90) days after the release of the Refiner's Compliance Report. The scope of the follow-up audit is the LBMA Refiner's Corrective Action Plan, which should provide details of the implementation of the Refiner's corrective actions taken to address all high-risk non-compliances. The auditor should issue a separate independent assurance report to accompany



the Refiner's Corrective Action Plan, and a copy of both these documents must be made available to the LBMA Executive.

Failure to adequately address high-risk non-compliances and/or failure to complete corrective actions for high-risk non-compliances by the second follow-up assessment must be communicated by the auditing body to the LBMA Chief Executive within 24 hours.

Any instances of zero-tolerance non-compliance should be reported by the auditor to those charged with governance at the Refiner within 24 hours and communicated to the LBMA Chief Executive.

The LBMA Executive will review each case in a timely and objective manner, and may suspend or delist the Refiner concerned from the List of accredited Good Delivery Precious Metal Refiners.



5. Complaints Mechanism

Any complaint about the quality of an audit or conduct of an auditor must be made in writing and must be supported by objective evidence. Complaints must be mailed or emailed to:

LBMA Chief Executive

1-2 Royal Exchange Buildings

London

EC3V 3LF

mail@lbma.org.uk

Oral complaints will not be accepted; all complaints must be in the English language.

Appendix 1

Definitions of Non-Compliances

Compliance: A Refiner is in compliance with the requirements of the LBMA Responsible Sourcing Guidance if they achieve the following.

- For each of the five steps in the LBMA Responsible Sourcing Guidance, the Refiner has appropriately implemented the requirements. This includes having effective Precious Metal supply chain policies, procedures, processes, management systems and practices, which perform in a manner that is compliant with the requirements set forth in the LBMA Responsible Sourcing Guidance;
- Prepares the Refiner's Compliance Report, which includes the minimum information as described in the LBMA Responsible Sourcing Guidance. In addition, the description of activities undertaken to demonstrate compliance should fairly represent the activities over the full reporting year (for example be complete, accurate, relevant and timely); and
- Fulfils the Refiner's responsibilities (as set out in Appendix 3):
 - Responsible for conformance with Steps 1 to 5 of the LBMA Responsible Sourcing Guidance;
 - Responsible for preparing the Refiner's Compliance Report. This should be publicly disclosed alongside the independent assurance report;
 - Responsible for preparing and publishing a policy on Precious Metal supply chain, which demonstrates how the Refiner complies with the steps set out in the LBMA Responsible Sourcing Guidance;
 - Appoint an independent auditor using the competencies set out in the Audit Guidance; and
 - Provides access to all evidence required by the auditor.

Low-risk deviations from conformance: A Refiner can still be in conformance with the Responsible Sourcing Guidance if only low-risk deviations from conformance are identified. Low-risk deviations are not required to be publicly disclosed by the Refiner in the Refiner's Compliance Report. A Refiner is likely to have low-risk deviations from conformance with the requirements of the LBMA Responsible Sourcing Guidance if any of the following criteria apply.

Low-risk deviations from conformance may relate to the Refiner's Precious Metal supply chain management systems, Refiner's Precious Metal supplying counterparty Due Diligence, documentation of a Refiner's transactions of Precious Metal-bearing material or any other aspect covered by the LBMA Responsible Sourcing Guidance, including but not limited to:

- An occasional or isolated problem related to the performance of the Refiner's systems, policies, procedures, processes and practices;
- A lack of formalisation of policies or procedures;
- Occasional failure to request and obtain appropriate Due Diligence documentation required in order to perform an appropriate assessment of the supply chain for all reviewed Precious Metal supplying counterparty files;
- Occasional failure to request and obtain appropriate transactional documentation for counterparties assessed as low-risk; or
- An issue that presents a low risk to the integrity of the LBMA system.

Minor or administrative inconsistencies with the LBMA Responsible Sourcing Guidance that may be dealt with promptly by the Refiner may not necessarily be recorded as a low-risk non-compliance or low-risk deviation from conformance.



Medium-Risk Non-Compliance: Medium-risk non-compliances may relate to the Refiner's Precious Metal supply chain management systems, Refiner's Precious Metal supplying counterparty Due Diligence, documentation of a Refiner's transactions of Precious Metal-bearing material or any other aspect covered by the LBMA Responsible Sourcing Guidance, including but not limited to:

- Multiple aspects of the Refiner's Precious Metal supply chain systems, policies, procedures, processes and practices are not in compliance with one requirement;
- Multiple problems related to the performance of the Refiner's Precious Metal supply chain systems, policies, procedures, processes and practices are related to the same root cause;
- Recurrent failure to request and obtain appropriate Due Diligence documentation required in order to perform a proper assessment of the supply chain for all reviewed Precious Metal supplying counterparty files;
- A problem related to the Refiner's internal material control mechanism;
- Recurrent failure to request and obtain appropriate transactional documentation for the sample of transactions; or
- Recurrent failure to adequately address low-risk non-compliance or low-risk deviations from conformance by the Refiner may result in the issue becoming a medium-risk non-compliance.

High-Risk Non-Compliance: High-risk non-compliances may relate to the Refiner's Precious Metal supply chain management systems, documentation of a Refiner's Precious Metal supplying counterparty Due Diligence and transactions of Precious Metal-bearing material or any other aspect covered by the LBMA Responsible Sourcing Guidance, including but not limited to:

- Total absence of implementation, a systemic failure of or complete lack of control over required Precious Metal supply chain systems, policies, procedures, processes and practices;
- Failure to assess risks in the Refiner's Precious Metal supply chain, to regularly review the risk assessment or to report the results of the risk assessment to senior management;
- Failure to identify conflict-affected or high-risk areas in the Refiner's Precious Metal supply chain or lack of implementation of the Refiner's risk mitigation strategy;
- Failure to systematically request and obtain appropriate Due Diligence documentation for all Precious Metal supplying counterparty files;
- Failure to systematically request and obtain appropriate transactional documentation for transactions; or
- Insufficient key documentation that affects any transaction from high-risk supply chains (such as no transaction records, transaction records not in official counterparty name, etc.).

Zero Tolerance: Non-compliances that put the credibility and integrity of the LBMA system at risk are not tolerated. Any instances of zero-tolerance non-compliance will be reported by the auditor to those charged with governance at the Refiner within 24 hours, and communicated to the LBMA Chief Executive. The LBMA Executive will review each case in a timely and objective manner and may delist the Refiner concerned from the List of accredited Good Delivery Precious Metal Refiners.

Any of the following non-compliances are considered zero tolerance (the following list is non-exhaustive):

- Access is partially or fully denied to the auditor by the Refiner;
- Precious Metal-bearing material is identified that is associated with armed conflict, serious human rights abuses, financing of terrorism or money laundering;
- The Refiner attempts to influence the outcome of the assessment through unethical means;
- Evidence is found that documentation has been falsified by the Refiner, or with the knowledge and acceptance of the Refiner, by any actor in the Refiner's Precious Metal supply chain;
- The Refiner fails to comply with local laws and regulations, or Environment, Sustainability and corporate governance responsibilities.
- The Refiner deliberately misrepresents facts through deception, coercion or interference; or



- Any other action or absence thereof by the Refiner putting at risk the credibility or integrity of the LBMA system.

Appendix 2

Three-Party Relationship: Assurance Engagement and Corresponding Responsibilities

Refiner

- Responsible for conformance with Steps 1 to 5 of the *LBMA Responsible Sourcing Guidance* and overall compliance;
- Responsible for preparing the annual Refiner Compliance Report. This should be publicly disclosed alongside the independent assurance report within 3 months of the reporting year-end;
- Responsible for preparing and publishing a policy on the Precious Metal supply chain, which demonstrates how the Refiner complies with the *LBMA Responsible Sourcing Guidance*;
- Appoints an independent assurance provider using the competencies set out in the LBMA Assurance Guidance;
- Provides access to all evidence required by the assurance provider;
- Implements a Corrective Action Plan for all non-compliances identified. A copy of the Corrective Action Plan should be provided to the LBMA Executive.

Assurance provider

- Engaged by the Refiner to report, in accordance with the recognised assurance standards, on whether the Refiner's Compliance Report describes fairly the activities undertaken during the year to demonstrate compliance with the *LBMA Responsible Sourcing Guidance*;
- Satisfies the auditor competency requirements, and provides a specific declaration on this within the assurance report;
- Applies recognised assurance standards, and abides by standards of quality control;
- Performs assurance procedures to obtain evidence including reviewing the Corrective Active Plan and progress made;
- Issues an annual independent assurance report;
- Communicates assurance findings to Refiner's management by issuing an internal Management Report.

Intended Users

- Uses the Refiner Compliance Report and independent assurance report to make decisions
- Intended users include:
 - Refiner;
 - LBMA Executive;
 - Refiner's clients and counterparties.
 - LPPM

Appendix 3

Examples of Assurance Activities⁴

Planning and risk assessment

- Assessment of any risks that may impede on engagement acceptance (for example independence, conflict of interest, competencies);
- Agree on the following information with the Refiner;
 - Fees (including travel expenses);
 - Delivery timeframes and milestones;
 - Team composition;
 - Relevant documentation (including its location and availability);
 - Programme for on-site audit and timescales;
 - Responsibilities confirmed for auditors and Refiners.
- Finalise contractual arrangements;
- Kick-off meeting with Refiner;
- Consideration of the Refiner's existing internal or external audits, and supply chain Due Diligence initiatives that could be relied upon;
- Assessment of the suitability of criteria, i.e. does the Refiner's application of the reporting criteria (consisting of the LBMA Responsible Sourcing Guidance and the supply chain policy document) meet the five characteristics of suitable criteria (relevant, completeness, reliability, neutrality and understandability);
- Review of Refiner's Precious Metal supply chain policy and/or internal methodology documents;
- Review of draft Corrective Action Plan and draft Refiner's Compliance Report (if available);
- Obtain an understanding of the Refiner's operations (in order to develop the planned approach, including nature, timing and extent of assurance procedures) including:
 - Names, locations, types of Precious Metal-bearing material received and processed;
 - Unit operations on site where Precious Metal-bearing materials are processed;
 - Relevant information about the Refiner's operations and processes that are actively contributing to activities, processes or systems related to Precious Metal Refining (including off-site offices, processing facilities and/or storage areas for Precious Metal-bearing material);
 - List of Precious Metal supplying counterparties, including country of residence and risk level in the reporting period;
 - List of all transactions of Precious Metal-bearing material received in the reporting period for purposes of Precious Metal Refining;
 - Organisational chart.

Testing

- Perform a walkthrough of the Refiner Due Diligence process to gain an understanding of implemented controls and procedures. Focus areas could include:
 - Knowledge and implementation of Precious Metal supply chain management systems;
 - Identification of recycled material and grandfathered material (for example stamps, marks or inventory lists, etc.);
 - Shipments where material could be associated with money laundering, terrorist financing, contribution to conflict or serious human rights abuse and how the Refiner deals with them (for example quarantined until the Refiner obtains additional data to confirm or refute its preliminary assessment);
 - Shipments where material is associated with money laundering, terrorist financing, contribution to conflict or serious human rights abuse, and how the Refiner deals with

⁴ Note that the information contained in the table above is for guidance purposes. The auditor should apply their professional judgement and consider the specific circumstances for each assurance engagement.



them (for example quarantined and Refiner immediately stops refining Precious Metal from this provenance).

- Testing of Refiner's Precious Metal supply chain management systems; for example:
 - Supporting documentation of communication and implementation of systems, policies, procedures and practices in accordance with the Refiner's Precious Metal supply chain internal management systems;
 - Evidence and registers supporting the above;
 - Testing a representative sample of Refiner Precious Metal supplying counterparty Due Diligence files and transactions to confirm that documentation related to Due Diligence measures in the Precious Metal supply chain is systematically requested, collected and maintained on file in compliance with the LBMA Responsible Sourcing Guidance. (It is recommended to plan sufficient time for this testing to be performed);
 - Review of draft Refiner's Compliance Report;
 - Assessment of whether the descriptions of activities and conclusions contained within are fairly stated (complete, relevant, accurate, timely) and fairly represent the results of the assurance testing performed.
- Interviews with Refiner management on-site;
- Review of Corrective Action Plans;
- Assess results of assurance testing, and any implication to the assurance approach.

Completion and reporting

- Evaluate evidence;
- Final review of the Refiner's Compliance Report, signed off by management;
- Closing meeting and presentation of findings;
- Obtain management representations;
- Preparation of two deliverables:
- Independent Assurance report;
- Management Report.

Appendix 4

Person-Day Guidelines

As a guideline, the auditors may refer to the number of person-days recommended below for a reasonable assurance or a limited assurance. The actual number of days spent for each on-site assessment will be determined by the lead auditor.

LBMA Person-Day Sampling Guidelines – Reasonable Assurance

Number of transactions \ Number of suppliers	Number of suppliers			If the Refiner sources from high-risk supplying counterparties
	< 100	101 – 250	> 250	
< 2,500	2 – 4 ^(a)	2 – 4	4 – 6	+1 person-day for every additional 25 supplying counterparties.
2,500 – 5,000	4 – 6	4 – 6	6 – 8	
> 5,000	6 – 8	6 – 8	8 – 10	
If the Refiner high-risk transactions are	< 200 transactions received within the assessment period: +1 person-day >200 transactions received within the assessment period: +1 person-day for each 50 transactions received within the assessment period.			

LBMA Person-Day Sampling Guidelines – Limited Assurance

Number of transactions \ Number of suppliers	Number of suppliers			If the Refiner sources from high-risk supplying counterparties
	< 200	200 – 500	> 500	
< 1,000	1 – 2 ^(a)	1 – 2	1 – 2	+1 person-day for every additional 25 supplying counterparties.
1,000 – 5,000	2 – 4	2 – 4	2 – 4	
> 5,000	4 – 6	4 – 6	4 – 6	
If the Refiner high-risk transactions are	< 200 transactions received within the assessment period: +1 person-day >200 transactions received within the assessment period: +1 person-day for each 50 transactions received within the assessment period.			

The number of person days for each category may be increased or decreased, provided the time allocated for the on-site assessment allows the auditor or assessment team to establish a reasonable basis on which to draw conclusions about the Refiner's level of compliance with applicable requirements.

Where Refiners process more than one Precious Metal, they should undergo a multi-metal audit (note: due to their similarities Platinum and Palladium should be regarded as one Precious Metal). The audit length should be capped at 125% of a single metal audit where two Precious Metals are refined (for example Gold and Silver), and 150% where four Precious Metals are refined (Gold, Silver, Platinum and Palladium). Where non-conformances are identified, these should either be raised against the management system or the specific Precious Metal as appropriate. The audit report

should clearly state the nature of any non-conformance and the impact it has on a Refiner's operations.

Appendix 5

Country of Origin Annex

ASSESSMENT INFORMATION	
Refiner Name:	[NAME]
Refiner Location:	[ADDRESS]
Refiner Contact Person: Name, Title: Email: Phone:	[NAME, TITLE EMAIL PHONE NUMBER]
Assessment Period	[DATES]
Date of this report	[DATE]
Lead auditor and audit team members	[NAME] [NAME]

Countries of Origin for Mined Precious Metal:	
Country	Amount (kgs.)
Any other information (optional)	
<p>[Example response: All the data contained in the assessment report, as well as all information obtained during the performance of the certification, is private and confidential between the auditing body the Refiner and LBMA...]</p>	

Countries of Origin for Recycled Precious Metal:	
Country	Amount (kgs.)
Any other information (optional)	
<p>[Example response: All the data contained in the assessment report, as well as all information obtained during the performance of the certification, is private and confidential between the auditing body the Refiner and LBMA...]</p>	

Note: Refiners must complete a separate Country of Origin Annex for each Precious Metal.