



Raise the bar

The OECD's five-step framework on responsible sourcing of minerals aims to improve due diligence in the gold industry, says Muhammad Hassaan Bhagat

Recent financial unrest and the volatility of the US dollar have re-emphasised the importance of gold as a medium of value. But, aside from its value as a monetary asset, gold is used in thousands of products in sectors from electronics to aerospace. According to the World Gold Council, the contribution of the industry to the global economy rose sevenfold between 2000 and 2013, when its total impact exceeded US\$171bn.

In recent years, concern has arisen about so-called 'conflicted gold', gold sourced from parts of the world where the proceeds from mining are used to fund armed conflict, or where violence and human rights abuses occur in the process. This concern has given rise to the idea of responsible sourcing, a concept that is relevant to all companies involved in not only the extraction of gold, but the industry's entire supply chain. It involves the performance

of adequate due diligence to identify the origins of the mineral and ensure that it has been extracted in a manner that does not support conflict, commit human rights violations or breach international humanitarian law.

The Organisation for Economic Co-operation & Development (OECD) issued guidelines in support of responsible sourcing in the form of its *Due Diligence Guidance for Responsible Supply Chains of Minerals*

from Conflict-Affected and High-Risk Areas, developed in collaboration with 11 member countries of the International Conference of the Great Lakes Region, the industry, civil society bodies and the UN Group of Experts on the Democratic Republic of Congo.

Now in its third edition, the OECD guidance provides detailed recommendations for responsible sourcing. It includes a risk-based due diligence framework (see box) and procedures for responsible

◀ Gold standard

Due diligence is essential to ensure that gold extraction is not related to conflict, human rights violations or breaches of international law

supply chain management of gold and other minerals. The guidance has been adapted by the London Bullion Market Association (LBMA) and the Dubai Multi Commodities Centre (DMCC) to promote and support responsible sourcing among member companies.

Different concept

Responsible sourcing audit, as recommended in step 4 of the framework, is a relatively new concept and should be prepared in accordance with the International Standards on Assurance Engagements (ISAE) 3000.

The OECD did not lay down a specific framework for the conduct of a responsible sourcing audit. However, the DMCC and the LBMA have issued their own guidelines and standards based on the OECD framework and requiring auditors to review its implementation.

Among the areas to which auditors are expected to pay particular attention are:

- * responsible supply chain policies
- * the appointment of a dedicated compliance officer

- * the adequacy of documentation and record of supply chain due diligence to cover internal inventory and transactional documents
- * relationships with suppliers
- * the training of relevant staff involved in the responsible supply chain
- * the risk-assessment process (counterparty, geographical location, transaction)
- * enhanced due diligence on high-risk areas
- * sample verification of transaction records and development/implementation of risk mitigation plan etc.

Multilayered exercise

The audit is a complex and multilayered exercise reflecting the complexity of the industry, which encompasses not just extraction but also other processes including smelting and refining, and transportation. Gold refineries hold a pivotal position in the chain and as such are the primary channel from which the origin of gold can be most comprehensively tracked.

Suppliers are often reluctant to provide information about source for reasons of business confidentiality – they fear refiners may bypass them. But it is critical for the auditor to identify source or origin, and the mine and transportation route used in order to establish whether the mineral originates from or is transported via a conflicted or high-risk area.

The auditor should pay special attention to any cash transactions by refiners, as these may be riskier and might not have an authentic trail. In practice, it may not be possible to track the true origin of gold in relation to

The OECD's five-step framework

- 1. Establish strong company management systems.**
This provides guidance on setting up comprehensive systems to ensure adequate and effective due diligence of a company's supply chain, including adequate supply chain policies, strong internal controls, measures to strengthen relationships with suppliers, security guidelines and training.
- 2. Identify and assess risk in the supply chain.**
This provides guidance on how to use the management systems to perform risk assessment on each party in the mining, production, transportation and export of gold.
- 3. Design and implement a strategy to respond to identified risks.**
This provides guidance on dealing with identified risk(s) in the supply chain.
- 4. Carry out independent third-party audit of supply chain due diligence at identified points in the supply chain.**
This involves the appointment of a third party to audit the responsible sourcing measures adopted by the company in accordance with the OECD guidance and applicable regulations.
- 5. Report on supply chain due diligence.**
The final step calls for a public report on the due diligence for responsible sourcing in order to generate and boost public confidence in the measures taken by the companies.

such transactions.

It will take time for regulators, refiners and auditors to devise a standardised framework and process for responsible sourcing audit. In the US, section 1502 of the Dodd-Frank Act creates obligations for US-listed manufacturers to identify whether they source conflict minerals from the Democratic Republic of the Congo or adjoining countries and report this to the Securities and Exchange Commission. The European Parliament is due to vote on an agreement to implement due diligence measures for minerals following the OECD guidance in the first half of 2017. Under the proposals, competent authorities in member states

will be charged with carrying out checks to ensure that EU importers comply with their due diligence obligations.

The attention given by US and EU authorities to the sourcing of conflict-free gold is testament to its significance in the socio-economic landscape. However, regulators and auditors need to understand that due diligence is a continuous process that requires flexibility. It may take a while for responsible sourcing to be fully and adequately implemented, and small-scale miners and refiners will require support. ■

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For more information:

Read the OECD report at bit.ly/oecd-conflict

