

Guidance Note for Track B audits

1. BACKGROUND

The full details of the LME's responsible sourcing rules are provided in the document titled "Overview of LME responsible sourcing" and the associated appendices, as follows:

- (i) amendments to Part 7 of the Rules and Regulations of the LME ("LME Rulebook");
- (ii) the LME Policy on Responsible Sourcing of LME-Listed Brands ("the Policy"); and
- (iii) the LME's Red Flag Assessment ("RFA") template.

In addition, the document "LME responsible sourcing: supplier red flags" may provide useful guidance to both auditors and Producers.

As explained in the Policy, the LME provides three tracks for compliance with the OECD Guidance portion of its responsible sourcing rules. Track A, the Recognised Alignment-Assessed Standard Track, involves an audit¹ to assure implementation of a Recognised Alignment-Assessed Standard. Track B, the Audited LME RFA Track, involves an audit to assure information provided by the Producer in the LME RFA. Track C does not involve an external third party audit. This guidance is relevant for Track B, the Audited LME RFA Track. For detail regarding Track A or C, please refer to the Policy.

All the information contained within this document is provided for guidance and background purposes only. In the event of any conflict or inconsistency between this document and the Policy, the Policy shall prevail. Capitalised terms not otherwise defined in this document shall have the meanings ascribed to them in the Policy.

2. PURPOSE

The purpose of this document is to bring a level of consistency and clarity to the audits required for Track B, the Audited LME RFA Track. The intended audience is both the auditors and Producers choosing Track B.

LME may revise this guidance based on emerging good practices. The LME plans to convene meetings with Producers following Track B and its Recognised Auditors to inform this guidance. To ensure use of the most updated version, please review the LME Responsible Sourcing website: <https://www.lme.com/en/Company/Responsibility/Responsible-sourcing> (most current version published 20 Dec 2021).

3. GUIDANCE

3.1 Audit scope

As stated in the Policy,

"A Producer must, in respect of each Reporting Period, and for each Brand for which it proposes to apply the Audited LME RFA Track, procure an audit or suitable assurance report, in order to verify that its LME RFA in respect of the relevant Reporting Period has correctly reached the conclusion that no OECD Red Flags have arisen, and is based on appropriate and accurate information (an "Audit Report")."

¹ The LME understands that the use of audit vs. assurance is not uniform within the responsible sourcing world. For the avoidance of doubt, references to "audits" and "auditors" throughout this document can be taken to mean either auditor or assurer for the purposes of LME compliance, as appropriate to the audit standard.

Thus, the Track B audit is a verification of information provided by the Producer in the Red Flag Assessment.

The auditor reviews the Producer's responses to the questions in the LME RFA, assesses the adequacy of the management systems that led the Producer to those responses through evidence review, and then provides a statement of assurance. Through Track B, the LME is expecting:

- (i) assurance from the auditor that the Producer's management system could identify OECD Red Flags and
- (ii) verification from the auditor that the Producer did not identify any OECD Red Flags in the Reporting Period.

Additionally, the auditor will ensure that all other questions, such as question six of the LME RFA (FINANCIAL CRIME AND CORRUPTION RISK), are complete and the Producer publicly discloses information as required.

3.2 Audit standard

The LME accepts audits performed in accordance with International Standard on Assurance Engagements ISAE3000, reasonable assurance only, or the ISO 19011:2018 Guidelines for Auditing Management Systems. The LME will not accept limited assurance engagements or agreed upon procedures engagements. If an auditor plans to conduct an audit using any other assurance engagement, please be in touch with the LME prior to the audit.

3.3 Audit fees

The cost of the audit will be agreed between the auditor and the auditee. Companies may wish to consider requesting quotes from multiple Recognised Auditors.

3.4 Evidence required, including on-site or remote audits

The evidence required for the auditors to provide the assurance statement in Section 3.1 Audit Scope is determined by the auditors and provided by the Producer. The LME expects this will include document and record review, interviews with the Producer staff, photos, and/or live video tours and demonstrations. All auditors approved by the LME will have experience with the OECD Guidance and are expected to use professional judgement regarding the type of information that may assist them in their assessment.

The LME does not expect that in-person visits to the Producer's site will be needed in most cases; however, for complex situations the auditor may decide it is necessary for them to visit the site in order to provide the adequate level of assurance. This will be agreed upon between the auditor and the Producer in planning discussions.

3.5 CAHRA determination

Determining Conflict-Affected and High-Risk Areas ("CAHRAs") is part of the Red Flag Assessment. As stated in the Policy on page 24, *"the LME expects that the definition of "conflict-affected and high-risk areas" will be as set out in the "Supplement on Gold" of the OECD Guidance."* Both Producers and auditors are expected to use their professional experience and knowledge of the industry to determine CAHRAs. There are existing tools, methods, and lists that Producers may use to help them in this process. At this time, the LME is not providing any additional guidance other than what is already included in documents mentioned in the introduction (specifically page 24 of the Policy and page 8 of the Overview of LME responsible sourcing). This is an evolving aspect of due diligence, especially for

mineral supply chains beyond tin, tantalum, tungsten, and gold (“3TG”), and the LME will monitor developments in CAHRA determination.

3.6 Audit Report (deliverables)

The auditor must provide a report to the Producer that includes the following:

- LME Brand information, to include:

Brand name:		LME Brand code:	
Producer name:		Producer address:	
Contact details:		Reporting Period:	
Date of audit:			

If multiple Brands are included in the same audit, this table must be repeated for each Brand.

- Auditor company name, lead auditor, and any team members supporting the audit
- Methodology applied (ISO 19011 or ISAE 3000, reasonable assurance only)
- Audit scope
- Summary of assessment activities (to include at a minimum the list of documents reviewed and the number of interviews)
- Summary of findings
- A reasonable assurance conclusion (ISAE3000) or compliance determination (ISO 19011) for the elements listed in Section 3.1 Audit Scope

The LME requires a report in English, so an English version must be submitted to the Producer. In the event of a translation discrepancy between an English version and an original document in a different language, the English version will prevail so accuracy of translation is imperative.

3.7 Corrective actions, improvement plans, and non-conformances

As stated in 3.1 Audit Scope, the Track B audits are a verification exercise. There are two possible outcomes: (1) the auditor is able to provide reasonable assurance or a statement of conformance for the elements included in 3.1 Audit Scope or (2) the auditor is not.

If the auditor is able to provide reasonable assurance or a statement of conformance for the elements included in 3.1 Audit Scope, but discovers other practices that could be improved based on the auditor’s professional judgement, this should be disclosed in the “summary of findings” in the Audit Report submitted to the Producer. Implementing the improvement recommendations are not necessary for compliance with the LME’s rules when provided with a positive assurance statement.

If the auditor is unable to provide reasonable assurance or a statement of conformance for the elements included in 3.1 Audit Scope, the auditor will include such a conclusion in the Audit Report. As stated in the Policy on page 12, *“For the avoidance of doubt, in the event that the Audit Report does not confirm the assessment that there are no OECD Red Flags for the Brand as being correct, the Producer must change track and apply the Recognised Alignment-Assessment Standard Track in respect of the Brand.”* Referring the Producer to Track A takes the place of creating any improvement plan or corrective action plan under Track B.

In such cases where switching to Track A will affect the Producer’s ability to meet required deadlines, the Producer must inform the LME of the Track B Audit Report. The LME will work with the Producer to agree revised timelines on a case-by-case basis, as it is expected that the Producer will need time to

become familiar with Track A. This is stated on page 12 of the Policy, *“The LME shall, in its absolute discretion (and acting reasonably) prescribe the dates from which such Brands must comply with the requirements [...].”*

If the Producer disagrees with the auditor’s draft or final conclusion and cannot resolve the disagreement directly with the auditor, they may approach the LME at any time for additional consultation.

3.8 Submission to the LME

For Track B, the Producer has the responsibility to submit the Audit Report to the LME. The completed LME RFA may be submitted with the Audit Report, but is not required.

3.9 LME review

As stated in the Policy on page 14,

“The LME shall be entitled to review the Audit Report and may:

- (a) in the event that the LME has concerns or questions regarding any aspect of the Audit Report, the basis of its production, its conclusions or any of its content, require the Producer to respond to such concerns or questions and/or procure that the Recognised Auditor do so; and*
- (b) in the event that the LME is not satisfied with the responses to such concerns or questions, require the Brand to be reclassified as, and assessed under the requirements for, the Recognised Alignment-Assessed Standard Track.”*

The LME endeavours to complete reviews in a timely manner. In such cases where the Brand must switch to Track A, the LME will work with the Producer to agree revised timelines on a case-by-case basis as outlined in Section 3.7 of this document.

3.10 Public reporting

As stated in the Policy on page 14,

“The results of the Audit Report must be disclosed, pursuant to OECD Step 5, not later than the 31 December following submission of the relevant Audit Report to the LME.

Such results must be published on a publicly-accessible website maintained by the Producer, with a link to such page or pages of the LME’s own website as the LME may specify.”

As an example, for the 2021 reporting year, Track B Audit Reports must be submitted to the LME on 30 June 2022 and the Track B Audit Report needs to be publicly available on the Producer’s website by 31 December 2022. If a specific asset (Brand) is owned by a larger parent company, publication on the parent company’s website is permissible.

The Producer is responsible for this reporting.

3.11 Annual assessment

As a reminder, LME requires an annual Audit Report for Track B in line with the Producer’s Reporting Period. In the event of a change of auditor, the LME encourages Producers to share the previous Audit Report, and LME RFA if it exists with its new auditor, but they are not required to do so. Producers may use the same auditors or different auditors each year, and may switch from Track A, B, or C for different years as long as there is not a gap in their Reporting Periods.