

# 4. 2019 AUDITOR REVIEW and Updates

## OVERVIEW

LBMA's Responsible Sourcing Programme is only as good as the audit process and the auditors themselves. Ongoing review and enforcement of LBMA's Approved Auditor requirements are important elements for the credibility of the Programme. LBMA engages with auditors through training sessions, webinars and robust quality control.

## QUALITY CONTROL

**LBMA's ongoing scrutiny helps ensure that Approved Auditors meet the stringent standards expected of them as set out in the [Responsible Sourcing: Third-Party Audit Guidance \(Audit Guidance\)](#).**

The OECD Due Diligence Guidance mandates the auditor as the party responsible for checking that the GDL refiner is applying the right level of due diligence required for a counterparty, rather than the industry programme provider such as LBMA.

The auditor's procedures are based on the output of their planning and risk assessment of the business model and the risk profile of the GDL refiner, which is unique for each engagement. LBMA puts significant efforts into reviewing the audit reports received, and will often challenge an auditor and ask for more information based on this scrutiny. In certain circumstances, LBMA will engage with the auditor to draw their attention to information learned about potential risks associated with a refiner's supply chain.

The *Audit Guidance* notes, under Auditor Qualification, that the auditor (also referred to as the Approved Service Provider) must be able to fulfil include the following requirements:

**Independence:** The service provider must have complete financial and other independence from the GDL refiner. In particular, the auditing body shall not provide services for the GDL refiner related to the design, establishment or implementation of the GDL refiner's precious metals 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 at least the 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.

In addition, auditors are required to detail in the Auditor Application Form their quality assurance and conflicts of interest policies, and explain how they comply with the various core principles, which include ethical conduct, due professional care, independence and integrity. Where any of these aspects come under disrepute, the auditor is removed from the Approved Service Providers List. In such circumstances another audit can also be requested.

## IN 2019, LBMA TOOK STRINGENT MEASURES TO ENSURE THE ONGOING CREDIBILITY OF THE AUDIT PROGRAMME:

- Removal of one audit entity from the Approved Service Provider List due to a lack of confidence in their assessment of risk.
- Removal of four audit entities from the [Approved Service Provider List](#) for not meeting the eligibility criteria. This also included auditors who were unable to successfully transition to the ISAE 3000 standard. This requirement became mandatory for all audits of financial years starting on or after 1 January 2019.
- Removal of one lead auditor from a firm on the Approved Service Provider List due to poor performance.

## AUDITOR TRAINING

**LBMA collaborates closely with the Responsible Minerals Initiative (RMI) and Responsible Jewellery Counsel (RJC) to identify opportunities for joint training of auditors.**

In June 2019, a full-day advanced auditor training course was held in London in conjunction with the OECD, RMI and RJC to provide enhanced focus on the OECD Due Diligence Guidance and an opportunity for auditors to ask questions. The requirement for this training came from the OECD Alignment Assessment and the European Commission wanting further assurances on the quality of the audit reports.

In August 2019, LBMA launched a free interactive training module on the OECD Due Diligence Guidance. The module was developed by ELEVATE in collaboration with the RMI and RJC, and is available on LBMA's website. To date, the module has been accessed from LBMA's website 300 times. Further joint online auditor training opportunities are being discussed for roll out in 2020/21.

*“ I welcome the opportunity to make the processes employed by the Physical Committee and the LBMA Executive more transparent, and available to all of the market participants that rely on this effort. This is fundamental in providing confidence over the sourcing of the products that we are all buying and selling. ”*

**Ian Warman,**  
Chairman of LBMA Physical Committee

## FUTURE DEVELOPMENT

**In 2020, LBMA teamed up with an independent auditor as well as external training provider Synergy Global to co-develop an Auditor Competency Framework to support the ongoing management of competencies and professional development of LBMA auditors.**

This will further equip auditors with the knowledge and skills to continue to push for better standards and exercise appropriate challenge by better understanding precious metals supply chain risks.

The monthly *Responsible Sourcing Newsletter* introduced in January 2020 and the *Responsible Sourcing & Technology Virtual Summit 2020* also provide auditors with additional ways to stay abreast of the latest developments in the precious metals market.

## LBMA REVIEW 2019

**LBMA reviews these criteria to make sure auditors remain independent and have appropriate capacity, as well as robust quality assurance policies and procedures.**

Where there have been issues identified against auditors, LBMA will revisit these criteria and check to ensure the auditor remains compliant.

**An updated Approved Service Provider List for 2020 was published in late 2019.** This followed LBMA's extensive review of each auditor by the Compliance Panel which is undertaken annually. As a result, two additional new criteria were introduced. Each auditor's mandate is now restricted to:

- geographic remit (global, regional, national), i.e. where in the world they can perform an audit; and
- scope of engagement. For example, some auditors can only audit if the GDL refiner only sources domestically.

Guidance from the Physical Committee, which collaborates closely with the LBMA Executive on Responsible Sourcing matters, was sought during the auditor review process. The Committee provides a crucial role in ensuring that the Approved Auditors List can continue to be relied upon to provide confidence to the market.

The measures provide an additional control to ensure that the most appropriate auditor is appointed to suit a GDL refiner's business model. However, the restrictions can be changed and/or removed, if the auditing firm can demonstrate that it has implemented a development plan that addresses the restrictions.