

2. PROGRAMME DELIVERABLES and Review

OVERVIEW

LBMA receives an audit report from a Good Delivery List (GDL) refiner for its previous 12 months' production. For example, during 2019, LBMA reviewed audit reports for 2018 production. Audit reports for each year's production are due within three months of the GDL refiners' financial year end.

Mandatory audit deliverables submitted to LBMA:

- Refiner's Compliance Report (Public)
- Independent Assurance Report (Public)
- Management Report
- Country of Origin Annex²
- Corrective Action Plan (if required)

In compliance with the OECD Due Diligence Guidance, Step 5 (reporting on independent third-party audits), refiners are required to submit to LBMA, and make publicly available, the Refiner's Compliance Report and related Independent Assurance Report in accordance with the ISAE 3000 standard.

LBMA is working on enhancing refiner reporting (Disclosure Guidance) for next year, so as to increase the quality and level of information publicly disclosed. See Section 8: Future Development Of The Programme. The Disclosure Guidance aims to improve GDL refiner disclosure and reporting practices, seeking greater alignment with the OECD Step 5 requirements on public annual reporting, and more open and robust communication by the industry in general.

Refiner's Compliance Report

Refiners are required to publicly report on their compliance for activities over a 12-month reporting period in the Refiner's Compliance Report, with appropriate regard for security, proprietary information and the legal rights of the other supply chain actors. The Compliance Report should include a conclusion statement on overall compliance and state any non-compliance (other than low-risk deviations from conformance) that may have been identified during the audit process. The descriptions of the activities and conclusions contained within the Compliance Report are the subject of independent assurance.

Independent Assurance Report

The Independent Assurance Report is prepared by the third-party auditor and discloses details of the assurance engagement and the assurance conclusion.

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

Management Report

The Management Report issued by the auditor is the formal mechanism for communicating observations to the refiner. The Management Report should include details on assurance findings and may also include specific observations with respect to the refiner's Corrective Action Plan and implementation progress.

Country of Origin Annex

The Country of Origin Annex lists the countries of origin and amounts of mined and recycled material received during the audit period, and is independently verified by the third-party auditor. The Annex is confidential and whilst available to LBMA, is not disclosed publicly. The data is collated and aggregated, and then published. See section 5: Country of Origin Data.

Corrective Action Plan

A Corrective Action Plan must be submitted if medium-risk or high-risk non-compliances are identified during the audit process. Refiners may also include low-risk non-compliances in the Corrective Action Plan to demonstrate a commitment to continuous improvement. The Corrective Action Plan should be reviewed by the auditor as part of their assurance testing.

“*Transparency is vital to the integrity of Responsible Sourcing, and LBMA is focused on improving disclosure standards. Refiners disclosure should provide insight on the success and challenges of its Management Systems. This demonstrates accountability and forms a basis for informed dialogue with stakeholders.*”

Sakhila Mirza, LBMA Executive Board Director

2. Since 2018 production.

RISK CATEGORISATION

The risk categorisation supports the LBMA review of all amend audit reports.

The Risk Categories are either objective, subjective or a combination of both. LBMA will use the risk matrix to help with the review of each refiner and the audit reports. It should be noted that various categories will be reviewed together to determine the overall risk profile of the refiner and should not be read in isolation. For example a refiner’s throughput might be low, but the material might be sourced from high-risk jurisdictions, and therefore LBMA will determine the refiner to have a high-risk business model.

REFINER RISK CATEGORISATION

LBMA has developed an internal tool to determine the appropriate level of scrutiny.

	RISK LEVEL		
	Low	Medium	High
Throughput (t)	10-50	50-100	> 100
Material Type	Industrial by-product; Conversion of London Good Delivery Bar	Scrap; LSM*	ASM**
Geographical Risk	Local	Regional	International
Market Intelligence	No Issues	Minor Issues	Known Issues
Location	As per country risk assessment		
Business model	As per business model assessment***		

*Large-Scale Mining. **Artisanal and Small-Scale Mining.
***This takes into account how a refiner is funded, controlled, owned, etc.

The rationale behind the Risk Categories and their rating (low, medium or high) is described below. A high-risk rating or a combination of medium risk ratings will require enhanced scrutiny.

Throughput

Risk increases in line with the amount processed. For example, a large throughput from multiple sources would be riskier than relatively small amounts from a single source.

Material type

Risk increases in line with the amount of due diligence required to determine the origin of the feedstock material. For example, grandfathered stocks from a financial institution would probably require less due diligence than material originating from multiple ASM sites.

Geographical Risk

Risk increases when a refiner sources material from regions that have different characteristics from the region that the refiner is based in, such as legislation, customs (import/export as well as traditions) and even language.

Market Intelligence

If a refiner is acting atypically, market intelligence can reveal riskier behaviour. For example, a refiner that has traditionally only sourced industrial by-products is now attempting to source mined material.

Location

For example, some refiners may be operating in higher-risk jurisdictions such as those with political instability, high crime rates or environmental sensitivities.

Business Model

This is a more subjective Risk Category, but a refiner may have a higher risk appetite if it relies on a certain input level to maintain viability. There is a finite amount of uncaptured/available material and the global refining industry is very competitive.

COUNTRY RISK CATEGORISATION

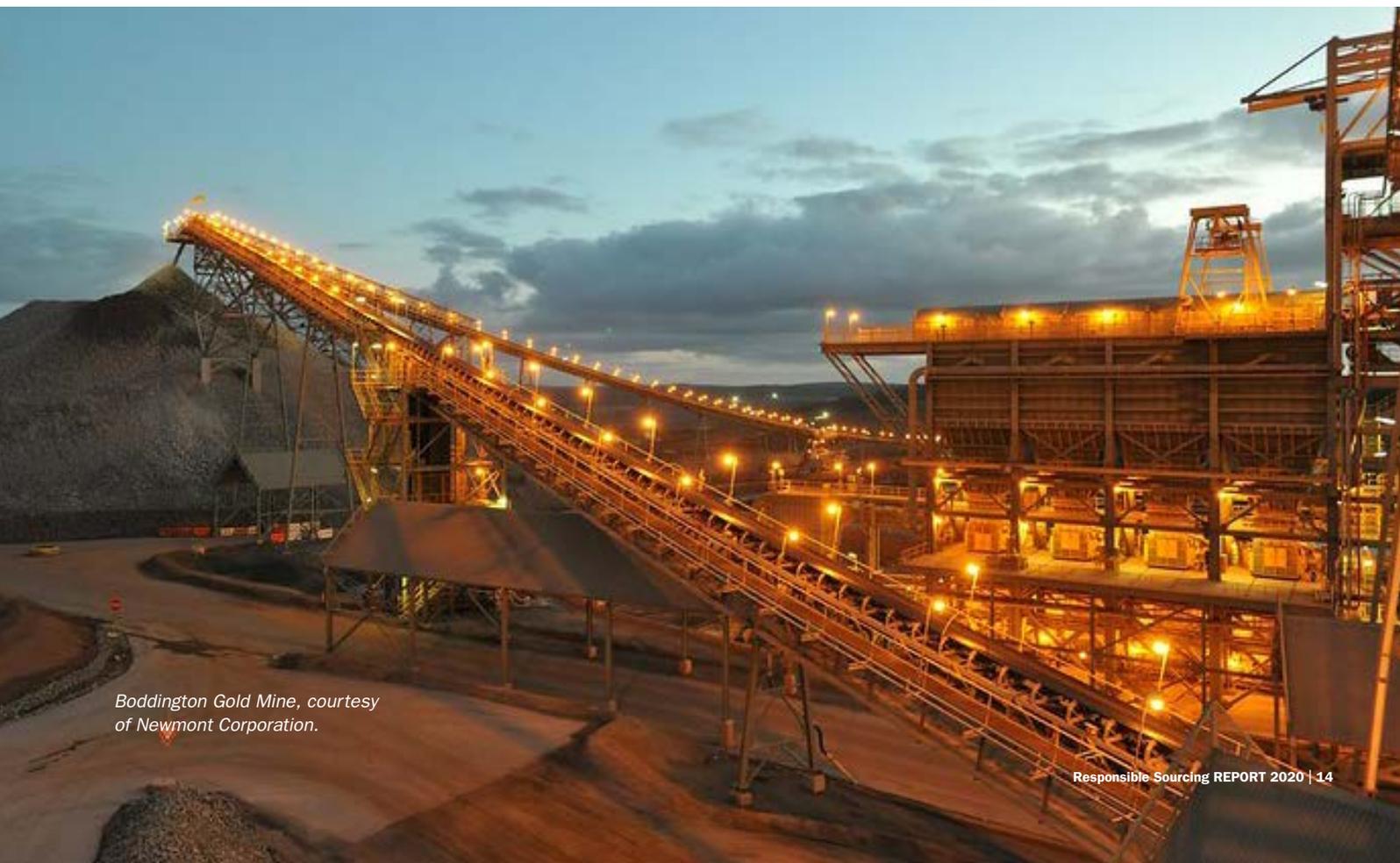
LBMA has also developed an internal Country Risk Categorisation based on publicly available sources combined with market intelligence.

	Description	Source
Category 1	Extreme Risk (US, UK, EU and UN sanctions)	Relevant List
Category 2	Dodd-Frank	Section 1502
Category 3	Conflict	Heidelberg Conflict Barometer
Category 4	Known Issues	Market Intelligence
Category 5	No Issues	

It should be noted that the above categorisations are used as guidance and are not definitive or exhaustive.

In the past year, LBMA took additional measures to leave no doubt with Good Delivery List (GDL) refiners on the rules around economic trade sanctions. These included issuing communications on the issue and bolstering the relevant sections in the latest version of the [GDL Rule Book](#).

LBMA expects all Members, Associates and GDL refiners to comply with relevant sanctions lists, as set out in Category 1 of LBMA's Country Risk Categorisation.



Boddington Gold Mine, courtesy of Newmont Corporation.

OUTCOMES

Once an audit review has been completed, the following outcomes are possible:

Pass

After the review, if no issues have been identified and/or all questions have been resolved, then a certificate is issued for next 12 months.

Zero tolerances

Any zero tolerances may lead to a GDL refiner losing its accreditation. This would mean that the refiner can no longer sell its material into London and/or the global market. A refiner would not be able to reapply for a minimum of five years.

Non-conformances: Corrective Action Plan

It is accepted under the [Programme](#) that the annual audit may identify a series of low, medium or high-risk non-conformances, provided the GDL refiner is acting in good faith. This encourages the requirement for continuous improvement, but also recognises changes in the GDL refiner's business model and risk profile. The GDL refiner should address any low-risk deviations from conformance as part of normal business practice and as part of its continuous improvement activities. Low-risk non-conformances should be addressed by the following year's audit.

When there are medium-risk or high-risk non-conformances, the GDL refiner is required to prepare a Corrective Action Plan (CAP). In cases where high risk non-conformances are identified, relevant follow-up audits are performed within 90 days of a CAP being issued, to confirm to a reasonable assurance level that the GDL refiner has taken adequate corrective actions to address these.

A certificate is only issued after the Corrective Action Plan has been implemented and a satisfactory follow-up audit has been completed.

Zero Tolerance: Non-compliances that put the credibility and integrity of LBMA's GDL 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 remove the refiner concerned from the List of accredited Good Delivery precious metal refiners. Any of the following non-compliances are considered zero tolerances (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 metals supply chain;
- The refiner fails to comply with local laws and regulations, or Environmental, Social and Governance (ESG) 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 LBMA's system.

Special Audit

A Special Audit has a very specific focus and helps to provide a second opinion to confirm the GDL refiner's compliance with LBMA's Responsible Sourcing Programme during the reporting period. It can arise out of:

- queries resulting from Country of Origin data reported confidentially to LBMA;
- media allegations;
- whistleblowing;
- part of an Incident Review Process.

Under a Special Audit, LBMA selects the auditor, who is independent of the original auditor. LBMA required three GDL refiners to undergo Special Audits after their 2018 audits: one GDL refiner in Switzerland (see case study two) and two GDL refiners in Turkey (see case study three).

Mutual Recognition

LBMA recognises the importance of harmonising supply chain standards, and interoperability is key for supply chain due diligence schemes.

For this reason, LBMA considers GDL refiners' accreditation by certain industry schemes as evidence of their compliance with the Programme. While compliance with these external schemes does not provide automatic compliance with the Programme, the interoperable elements of the schemes ensure that refiners' efforts are not duplicated unnecessarily.

These industry schemes and standards include:

- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, including the Supplement on Precious Metal;
- Responsible Minerals Initiative formerly the Conflict-Free Sourcing Initiative, in particular the Precious Metal Supply Chain Transparency – Refinery Audit Protocol;
- Responsible Jewellery Council, in particular the Chain of Custody Standard;
- World Gold Council Conflict-Free Gold Standard, in particular the Management Statement of Conformance Documentation that precious metal-mining companies provide to refiners;
- Fairtrade and Fairmined Standard for Precious Metal from Artisanal and Small-Scale Mining, including Associated Precious Metals;

In addition to recognising GDL refiners' efforts to comply with alternative due diligence schemes, LBMA works with these industry bodies to exchange market intelligence, Programme development suggestions and best practice considerations.

LBMA also works closely with the World Gold Council (WGC) on ensuring a smooth interface between the Programme and the WGC Responsible Gold Mining Principles (RGMPs), which provide a comprehensive framework of the key Environmental, Social and Governance (ESG) issues across the mine life cycle.