



Low-Risk Audit Program

July 2015 to June 2016

The Conflict-Free Smelter Program (CFSP) is in the process of tailoring its third-party audit system for smelters and refiners so that audit frequency adapts to the level of risk for conflict-affected sourcing. Implementing a “risk based” approach to auditing will benefit supply chain actors by amending the audit and training requirements for low-risk smelters and refiners while enabling CFSP to direct attention and resources to medium or high risk smelters and refiners.

What is risk?

The CFSP is a voluntary initiative in which an independent third party validates smelters’ or refiners’ management processes by auditing their procurement and processing activities to verify that the company has implemented the necessary due diligence procedures capable of producing conflict-free products. Using a risk-based approach, the auditors review sufficient documentation to conclude with reasonable confidence that the minerals being processed originate from conflict-free sources, including 3TG containing minerals that originate in the Democratic Republic of Congo (DRC) and its neighboring countries, known as “covered countries” in the Dodd-Frank Act. The members supporting CFSP believe that it is important to support responsible mineral sourcing from the Covered Countries.

Risk in our program is the risk of sourcing materials that are conflict-affected, meaning they directly or indirectly finance or benefit armed groups in the DRC or covered countries.¹

The smelter and refiner audit scrutinizes purchasing practices and determines where corrective actions are needed to provide validation for the origin of and chain of custody for materials. CFSP staff have determined that there are some cases where the possibility of purchasing conflict-affected materials is exceedingly low. Such cases include:

- Smelters that are sited in low risk countries and that purchase only domestic sources of primary materials (known as non-secondary materials in the audit protocol). Low risk countries are also known as “Level 1” countries in the current program and exclude the covered countries and suspected transit routes for conflict-affected materials.
 - The purchase of secondary materials of any type does not affect the above condition.

¹ This geography may change in future if additional countries or regions are regarded as conflict-affected or high-risk.



- Smelters or refiners that purchase 100% recycled or scrap materials. Provided that all materials are genuinely from recycled or scrap sources, there is little opportunity for conflict-affected materials to appear.

Transition to a Risk-based Audit Program

Currently, the CFSP requires an annual re-audit to maintain compliance to the audit standard. In transitioning to a risk-based audit program, the CFSP authorizes third party audit firms to make a low-risk determination for the entity they are auditing. If the smelter meets the eligibility criteria and completes the necessary agreements to participate in the program, the auditor will notify the Audit Review Committee (ARC) by means of an enrollment request. ARC has final approval of enrollment. After approval, CFSP staff will register and monitor the program's participants. The audit and training requirements are communicated and tracked so that each smelter may successfully follow the requirements.

Eligibility

Risk-based audit program participants shall be accepted in accordance with the following:

1. Compliance: completed (2) annual successive CFSP audits, both audits resulting in CFSP compliance determinations (i.e., status = compliant)
2. Compliance Results: audit findings for the second audit do not include the following:
 - a. No publicly communicated conflict minerals policy
 - b. Sourcing requirements of the policy are not incorporated in a standard operating procedure including annual training of relevant company personnel
 - c. Systems are not adequate to control the inputs of raw materials, processing of those raw materials to create products and outputs of the company products as demonstrated by completing an annual Line Item Summary with Mass Balance to reconcile receipts, inventories, losses, tolling and sales
 - d. No management process to evaluate the type and country of origin for all 3TG raw materials
3. Location: smelter facility operates in a Level 1 country
4. Sourcing: results of CFSP compliance audits confirmed "low risk" sourcing limited to the following conditions
 - a. Country of origin for non-secondary materials are only domestically sourced or obtained from a dedicated mine site located domestically in the same country in which the smelter operates²

² A "dedicated mine site" means a nearby mine that transfers much of its production to the smelter. The mine and smelter may have the same owner, but not in every case. Small amounts of non-domestic quantities would be permitted without implying a change in sourcing. Using *de minimus* amounts (up to 2 containers in a year) shall not affect the low-risk status.



- b. Secondary materials conform to CFSP's definition for recycle/scrap and suppliers of secondary materials are reasonably assumed to not be processing non-secondary 3TG raw materials
 - c. If materials are purchased from a CFSP-compliant smelter, such materials must be either domestic origin or must be only recycled/ scrap material
 - d. Does not purchase jewelry from non-commercial entities (i.e., private parties)
5. Commitment: smelter agrees to
- a. Sourcing Declaration: participants submit an annual Declaration that they continue to only process low-risk raw materials³
 - b. Maintain conformance to CFSP expectations as identified in the relevant CFSP audit protocol
 - i. Conformance includes annual submission to CFSP of a Line Item Summary with Mass Balance.
 - ii. Complete a CFSP-hosted training on an annual basis during non-audit years.
 - c. Notification agreement: participant agrees to notify CFSP of changes to raw materials sourcing practices within 30 days of such change, including:
 - i. Non-secondary materials originating from L2 or L3 countries
 - ii. Supplying smelters which are not compliant to the CFSP or other independent third party audit program
 - iii. Secondary materials and/or suppliers of secondary material which contain or process non-secondary materials from L2 or L3 countries
6. Final confirmation by the Audit Review Committee

Program Description

The low-risk audit program offers benefits to smelters and refiners primarily by extending the compliance term to a period of three (3) years.

In return for the reduced audit schedule, participants may be selected to share information in 2016 for purposes of studying the pilot program's results.⁴

The origin of secondary materials shall not be considered as a risk factor. Secondary materials are defined in the CFSP protocol.

³ Attest that there has been no international sourcing of non-secondary materials. CFSP will create a standard Declaration form.

⁴ The study of the pilot program will be conducted at CFSP's expense and carried out by a designated consultant. It may involve site visits to some, but not necessarily all, participants. The study will require interviews and spot checks of some transactions.



If at any time the country risk is determined to no longer be low-risk, then all smelters and refiners in that location shall automatically lose their low-risk status and be required to have an annual third-party audit. CFSP staff shall make a notification and allow appropriate time for scheduling the annual audit, not to exceed 90 days after the notification is made.

The low-risk program shall be subject to the enforcement provisions listed in the below section on enforcement.

Process for Enrollment and Participation

Smelters and refiners that have already met the eligibility requirement will submit a request for enrollment to the third-party audit firm that conducted its most recent audit. The enrollment application will be completed and signed by the audit firm and submitted to the Audit Review Committee (ARC), which meets weekly.⁵

Smelters and refiners that are undertaking their second audit may request that the audit firm complete an enrollment application and submit it to the ARC along with the audit report.

The enrollment application includes:

- Agreement to notify CFSP of sourcing changes within 30 days and provide an annual Declaration of Sourcing Practices
- Agreement to a possible 2016 on-site study of the pilot program
- Commitment to submit a Line Item Summary to CFSP annually
- Pledge to have a company representative complete either an in-person or online training course on CFSP expectations (in non-audit years)

Once the above-listed documents have been filed with CFSP, and after they have been approved by the Audit Review Committee, the participant shall be officially notified of the revised (extended) compliance period. The “valid until” date on the CFSI web site will be updated to reflect the three (3) year interval.

Example: the “valid until” date says July 1, 2015. New date will read: July 1, 2017.

The effective date of entry to the program shall be the date of the most recent CFSP audit. The valid until date will be three years from that time.

CFSP will notify participants annually of their duty to submit a Line Item Summary and complete a training course. Failure to achieve these goals on time could be grounds for returning to the annual schedule.⁶

⁵ There may be a small administrative fee charged by the audit firm.



Enforcement

There may be times when CFSP needs to schedule an audit prior to the completion of the three year period.

Such instances may include, but are not limited to, the following:

- Country is no longer regarded as “low-risk”
- Reports from civil society of a suspected case of conflict-affected sourcing
- Company has not completed the Line Item Summary on an annual basis
- Company has not completed the annual requirement for in-person or online training course on CFSP expectations
- Receipt of notification of a significant change in sourcing practices
- Credible information of non-compliance to the OECD Due Diligence Guidance for Responsible Supply Chains or Minerals from Conflict-Affected and High-Risk Areas

Any concerns about this program’s enforcement may be directed to the Audit Review Committee by the CFSP staff.

This test pilot will be studied in 2016 to determine whether it ought to be incorporated permanently into the CFSP audit protocols.

⁶ CFSP staff will make every effort to notify the company, including calls and emails, to ensure timely completion of this obligation.