



## **RJC Supply Chains Guidance for RJC Accredited Audit Firms – 11 March 2022**

### **Introduction**

Due to recent global events, the RJC provides this overview for auditors to support them during COP audits moving forward, ensuring that RJC members are not engaging with - directly or indirectly - or contributing to, significant risks. It is critical that our members comply with RJC standards, therefore RJC accredited audit firms should ensure compliance with the RJC assessment manual, identify and categorise non-conformances, and perform their work in alignment with the principles for aspiring confidence in certification systems which are: impartiality, competence, responsibility, openness, confidentiality, responsiveness to complaints and a risk-based approach (ISO17021). \*For CoC audits, members not certified again COP 2019, follow the COP7&12 guidance for CoC1&2.\*

This guidance will provide an overview of relevant COP provisions that auditors should consider conducting specific focus on when performing RJC COP audits. These include legal compliance under COP 1, Human Rights due diligence under COP 6, supply chain due diligence under COP 7 and KYC (Know Your Counterparty) under COP 12. Whilst other COP provisions may also need to be considered, this guidance provides a summary of those that should be prioritised. This auditor guidance goes alongside member-specific guidance provided as well, which will be shared.

### **Specific audit adjustments**

- Adjust your sampling methodology to increase the number of records checked- (at a minimum) for COP 6,7,12 from February 2022 onwards.
- Verify that members have procedures in place to ensure ongoing compliance with the COP, including appropriate actions for on-going review.
- Ensure that employee and management interviews include how members conducted and responded to global events and that compliance with the COP requirements were followed and understood by appropriate members of staff.

**This is a live document and will be subject to change. Please ensure you have the latest version. Updated versions will be available on the RJC website.**

CONFORMANCE RATING	DEFINITION
Conformance	The member's business practices (including its policies, systems, procedures and processes) perform in a way that conforms to the relevant COP provision.
Minor non-conformance	The member's business practices (including its policies, systems, procedures and processes) perform in a way that does not wholly conform to the relevant COP provision.  Minor non-conformances do not result in an imminent significant risk to employees, the community or the environment. They can occur when the member: <ul style="list-style-type: none"> <li>• Has an isolated lapse in the performance, discipline or control of its business practices;</li> <li>• Knows it has not complied with a relevant legislative or regulatory requirement but has adequately tried to rectify the non-compliance;</li> <li>• Is not in compliance with a relevant legislative or regulatory requirement, but has made good faith efforts to comply; or</li> <li>• Is found to have a business practice that does not breach the COP now but could potentially cause a major non-conformance.</li> </ul>
Major non-conformance	The member's business practices (including its policies, systems, procedures and processes) perform in a way that does not conform to the relevant COP provision.  Major non-conformances pose an imminent significant risk to employees, the community or the environment. They can occur when the member: <ul style="list-style-type: none"> <li>• Has a persistent (or high-impact isolated) lapse in the performance, discipline or control of its business practices;</li> <li>• Has not implemented a required provision at all;</li> <li>• Has a systemic failure or total lack of controls needed to manage business risks related to the COP;</li> <li>• Has knowingly ignored a relevant legislative or regulatory requirement, or has not adequately tried to rectify a non-conformance with a relevant legislative or regulatory requirement;</li> <li>• Has a group of related, repetitive or persistent minor non-conformances, indicating inadequate implementation.</li> <li>• Is subject to any finding or observation supported with objective evidence that proves a critical breach, or that raises serious doubts as to whether the member has the business practices to avoid any critical breach.</li> </ul>
Critical breach	<ul style="list-style-type: none"> <li>• The member's business practices (including its policies, systems, procedures and processes) perform in a way that does not conform to relevant COP provision.</li> <li>- Has finding that is rated as a major non-conformance for any critical provision as per Table 6.</li> </ul>
Not applicable	The member cannot conform to the relevant COP provision because of the nature of its business covered by the COP certification scope. Refer to <b>Appendix 1 Table A1</b> for further details.

## P.32 of the [RJC Assessment Manual](#)

### Summary

CABS should assess/check the steps and actions members of the RJC have taken to confirm that they are not contributing to, either directly or indirectly, or **linked to Human Rights abuses, conflict, and financing of conflict**, therefore it is important to consider reviewing evidence of the actions taken and ensuring that the member is in compliance with the COP requirements.

**Legal compliance** – Assess/check if members are compliant with any sanctions and updated, new or revised legislation in the jurisdictions that they operate in. Verify systems of review and plans to monitor ongoing developments.

**Human Rights** – Members must have conducted Human Rights due diligence or conducted a review of their existing Human Right due diligence activities. Review communications sent to members' supply chain, business partners, customers, and suppliers. Verify information collected has been placed into an appropriate risk assessment and that appropriate actions have been taken. **COP 6 is a Critical Breach Provision – If major non-conformance is discovered in a member's compliance with COP, notify the RJC as per the [RJC Assessment Manual](#).**

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**Supply chain due diligence** – Members must have conducted (or reviewed) their supply chain due diligence on business partners, customers, and suppliers, seeking as much information as possible on the origin of the product or materials they are buying, trading, or handling. Review the risk assessment that they have completed, verifying that they have used appropriate risk mapping/guidance sources and taken the necessary enhanced due diligence steps if their data collection raised any risks, red-flag risks or information that needed further investigation.

OECD recommends that the appropriate response for: “Serious abuses associated with the extraction, trade and transport of minerals” is to “**Immediately suspend or disengage from suppliers**”. It does state to “mitigate where possible” but if mitigation is not feasible then members should consider immediate suspension or disengagement. Verify that action has been conducted if a member has identified a risk. **COP 7 is a Critical Breach Provision – If major non-conformance is discovered in a member’s compliance with COP, notify the RJC as per the [RJC Assurance Manual](#).**

**KYC Know Your Counterparty** – Verify or review the member’s KYC records on their business partners, suppliers, customers or other significant stakeholders. Have members screened the collected information against sanctions lists for individuals, organisations, and governmental institutions? Did they include this information into their risks assessments for Human Rights and supply chain due diligence? Have appropriate actions been taken as a result of KYC checks?

#### **COP Provisions:**

##### **COP 1: legal compliance**

Members are required to follow any government/international legislation regarding the sourcing of materials that are directly/indirectly contributing to conflict, or having business relationships with companies that are directly/indirectly related to conflict or Human Rights abuses.

Verify members have a legal register (or appropriate other system) to assess current legal obligations and ensure compliance against any existing or updated legal requirements.

If members rely on external legal support, verify that the legal support offered is sufficient for the member’s operations and was conducted by an appropriately qualified and experienced legal expert.

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**Checklist:**

- Has the member identified any sanctions, legal restrictions, or additional legislation that would require the member to review their business operations?
- If government(s) have placed sanctions, restrictions, or additional legislation, has the member assessed the impact on their operations?
- Can the member provide you with documented evidence of the legal review they or an external expert have conducted, with outcomes and next steps?
- Has the member shared with you the documented actions taken as per the outcome of the legal review?

**COP 6: Human Rights**

Any member found to be sourcing from companies that are directly or indirectly linked to Human Rights abuses must be issued with non-conformances. Please refer to the RJC Assurance Manual for definitions of non-conformances. If members identify links to Human Rights abuses, directly, indirectly or linked to their business, what actions have they taken? Members should provide documented evidence that they have conducted a risk assessment, highlighting the risks identified, evidence/sources of verification, their mitigations identified and confirmed risks and next steps. If members are not able to confirm a risk due to lack of information, they should have taken appropriate steps to suspend trading or disengage with that supplier until further information is available.

**Checklist:**

- Review the member's due diligence on Human Rights for their business partners and supply chain.
- If the member has conducted due diligence and has identified possible Human Rights abuses, either directly, indirectly or linked, have they conducted enhanced due diligence to confirm the occurrence of Human Rights abuses?
- If the member has or is planning to conduct mitigations to identified and confirmed Human Rights risks, are the appropriate to the scale and severity of those risks?
- Has the member provided documented evidence of the due diligence conducted, with outcomes and next steps?

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### **COP 7: Due diligence for responsible sourcing from conflict-affected and high-risk areas**

Members in the diamond and coloured gemstones supply chain should engage with their first-tier supply to obtain country of origin information on the materials that they are purchasing. For their precious metal supply chain, they must trace their supply chain back to a refiner and verify that they have collected the material in compliance with OECD. Members should have assessed the information on the material's origins to see whether risks are present. Those risks are (at a minimum) to align with Annex II risks as specified by OECD.

### **CAHRAs and Annex II risks**

Verify that members have (as well as other risks) conducted due diligence on serious abuses **associated** with the extraction, transport or **trade of minerals**. This includes but is not limited to:

- **war crimes or other serious violations of international humanitarian law, crimes against humanity or genocide.**

OECD recommends that the appropriate response for: "Serious abuses associated with the extraction, trade and transport of minerals" is to "**Immediately suspend or disengage from suppliers**". It does state to "mitigate where possible" but if mitigation is not feasible then member should consider immediately suspending or disengaging.

### **Checklist:**

- Has the member conducted or reviewed their supply chain due diligence in alignment with OECD?
- Have they sought information on identified possible risks (at a minimum) identified in Annex II?
- If the member has identified serious abuses associated with the extraction, trade and transport of minerals have they **immediately suspended or disengaged from that/those suppliers?**
- Has the member provided documented evidence of the due diligence conducted, with outcomes and next steps?

## **COP 12 – KYC: Know your counterparty policy and procedures**

In alignment with COP 1, 6 & 7, members should take into review their supply chain partners and conduct KYC on these.

Members should have conducted KYC procedures on suppliers, customers and business partners, including their beneficial owners. Refer to the COP guidance on possible sources of information that the member should have collected as per KYC (it is not exhaustive). The member can use publicly available information to verify KYC, not just rely on information provided by their customer, supplier or business partner, especially for high-risk or known risks. This could be via sector-specific initiatives that support KYC. For example, the Antwerp World Diamond Centre and the Federal Public Service Economy co-host an online database of registered diamond companies in Belgium that allows businesses to identify their counterparties.

### **Checklist:**

- Has the member conducted or reviewed KYC on their supply chain and business partners?
- Due to the nature of global events, all members' risk assessments should be including beneficial owners.
- Have they verified the identity of their suppliers, customers, business partners and where applicable that of beneficial owners?
- Has the member provided documented evidence of the KYC conducted, with outcomes and next steps?
- Has the outcome of the member's KYC been included in their actions for COP6&7?

### **Version history**

<b>Version number</b>	<b>Release date</b>	<b>Notes</b>
1.1	March 2022	Includes guidance on verification for COP1,6,7,12