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# Conflict Minerals: Independent Private Sector Audit (IPSA)

## ILTAM Conflict Minerals Seminar

Rony Shalit, CPA
KPMG Somekh Chaikin

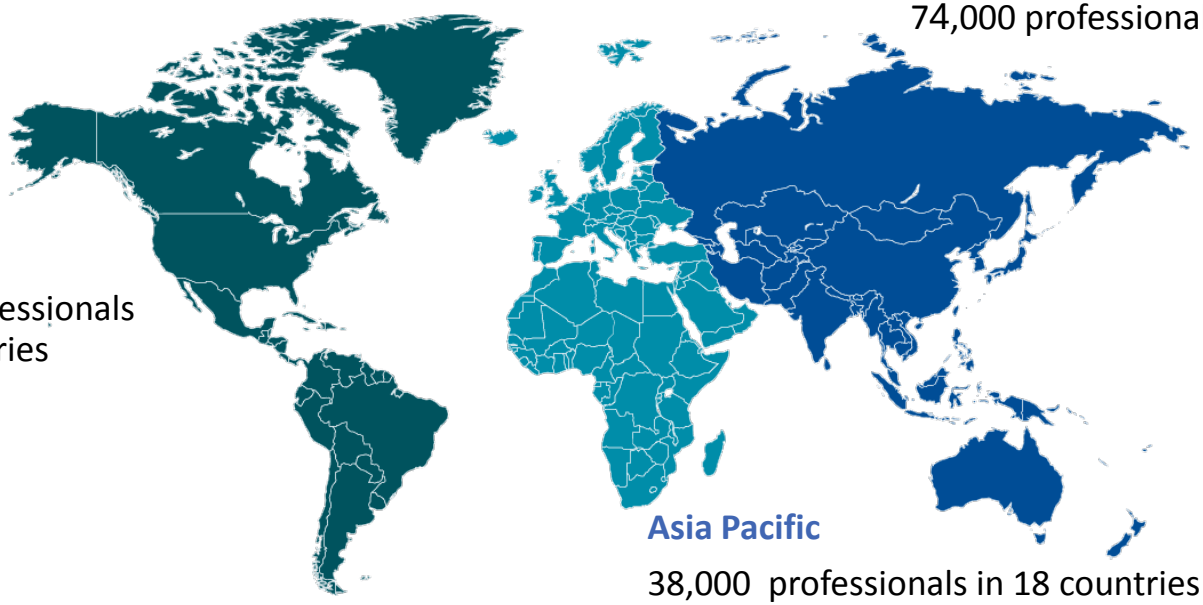
November, 2015



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**Europe, Middle East & Africa**
74,000 professionals in 119 countries



**Americas**
43,000 professionals
in 19 countries

**Asia Pacific**
38,000 professionals in 18 countries

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**Internal Audit, Risk and Compliance Services (IARCS):**

- Internal audit outsourcing and co-sourcing,
- Advising on the integration of corporate governance policies and internal enforcement mechanisms including preparation of written procedures
- Advising on compliance with regulations such as SOX and ISOX
- ERM (Enterprise Risk Management) consulting and implementation
- Sustainability services including strategy, implementation and assurance reports.
- Contract Compliance Services to assist organization effectively manage royalty collections and payments
- Specialized task force services to prepare for large scale audits by multi-national organizations
- Advice to government offices on policies, legislation and enforcement

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**Conflict Minerals:**

Process Background



**Part A**

**Conflict Minerals:**

Independent Private Sector Audit - Background



**Part B**

**Conflict Minerals:**

Independent Private Sector Audit - Implementation



**Part C**

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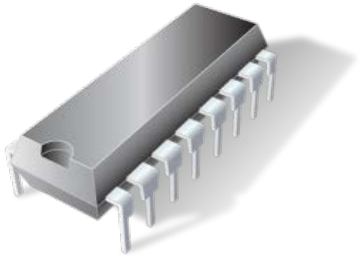


# Part A

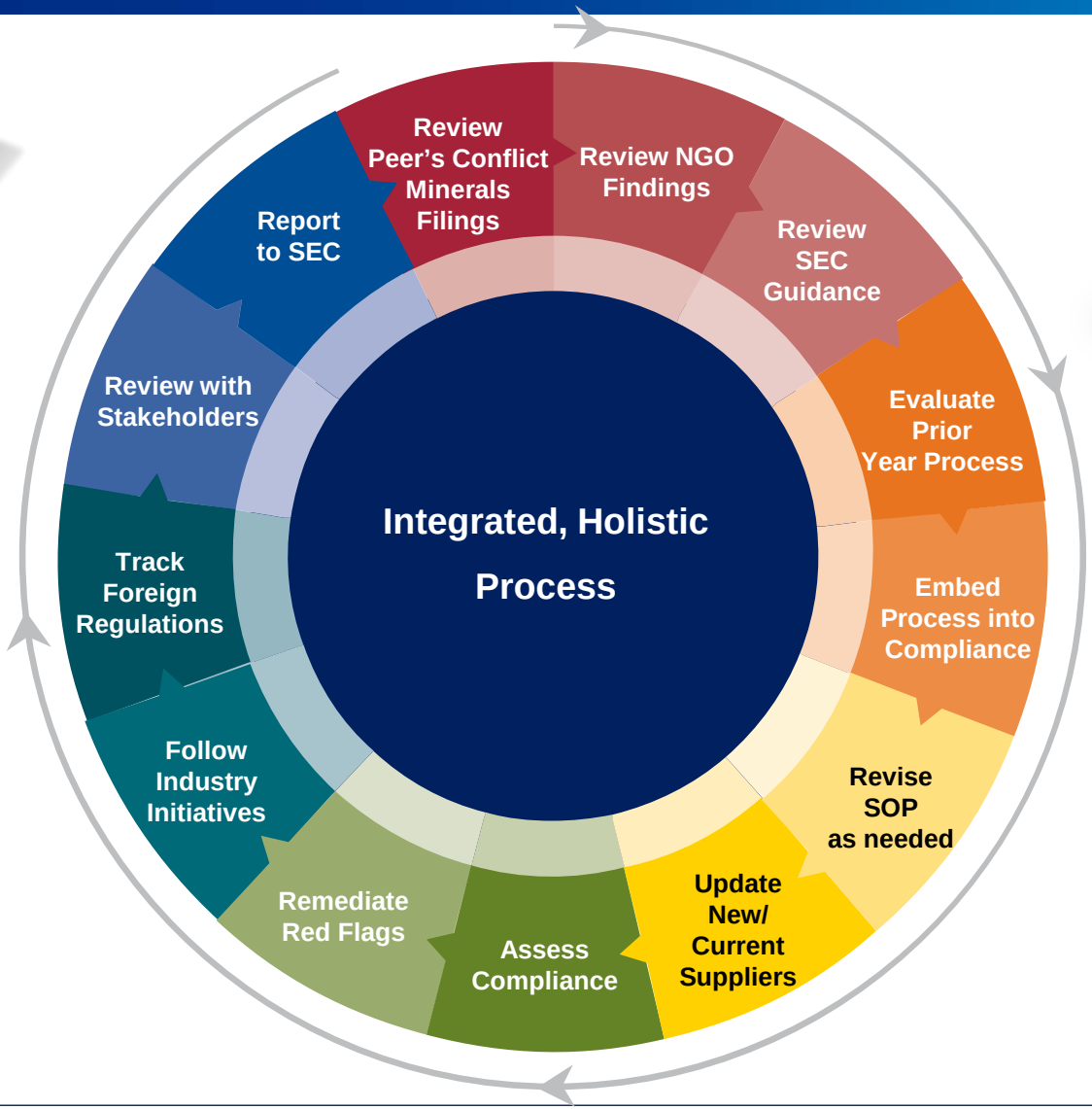
# Conflict Minerals:

## Process Background

# Conflict Minerals
## Process Background



Semiconductors Sector






Diversified Industrial Sector



Technology Sector



Defense Sector

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# Part B

## Conflict Minerals:

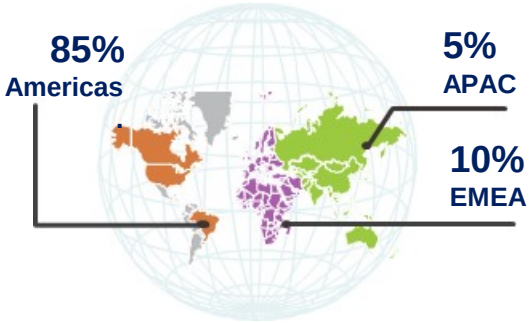
Independent Private Sector Audit

Background

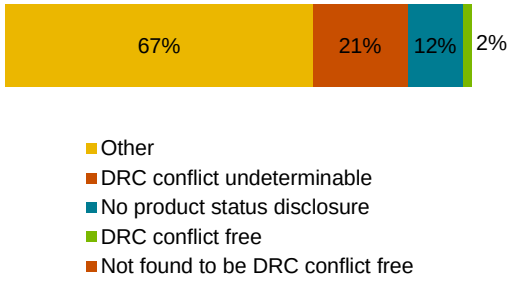
# Filing Status 2014/2015

## 2014

### Global overview




### Product status disclosure*

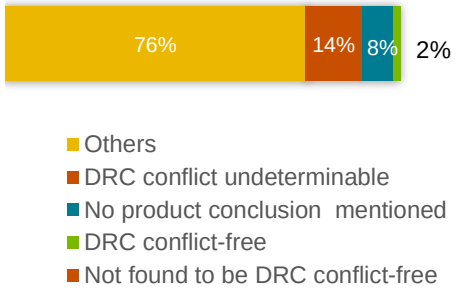



## 2015

### Global Overview




### Product status disclosure*

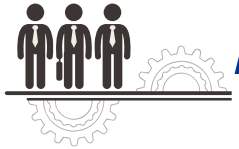



*Note: "Others" refers to companies which could not clearly provide product status disclosure.*

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# Independent Private Sector Audit (IPSA)

## Independent Private Sector Audit (IPSA) Analysis



### IPSA status - 2014

| S. No. | Company name | Auditor name |
|---|---|---|
| 1 | Philips | KPMG |
| 2 | Kemet | Douglas Hileman Consulting |
| 3 | Intel | EY |
| 4 | Signet | SGS North America |

### IPSA status - 2015

| S. No. | Company name | Auditor name |
|---|---|---|
| 1 | Philips | KPMG |
| 2 | AVX Corp | ELM Sustainability Partners |
| 3 | Kemet | Douglas Hileman Consulting |
| 4 | Signet | SGS North America |
| 5 | Intel | EY |
| 6 | Advanced Semiconductor | KPMG LLP |

# Conflict Free but no IPSA ?

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# Conflict Minerals
IPSA

**Background**

## Must have an Audit

- Section 1502 of the Dodd-Frank Act and the SEC regulations regarding Performance Audit Standards to CMR IPSAs, require that “issuers” obtain an independent private sector audit (IPSA) of Conflict Minerals Reports (CMRs) filed with the SEC as an exhibit to their specialized disclosure (Form SD) in circumstances **where due diligence measures identify that conflict minerals in any of the issuer’s products originated from the Democratic Republic of Congo or the adjoining countries.**.

## But…

- It is stated in “Statement on the Effect of the Recent Court of Appeals Decision on the Conflict Minerals Rule” released by the SEC in April 29, 2014, that no company is required to describe its products as “DRC conflict free”, having “not been found to be ‘DRC conflict free’”, or “DRC conflict undeterminable”. If a company voluntarily elects to describe any of its products as “DRC conflict free” in its CMR, it would be permitted to do so provided it had obtained an IPSA as required by the final rule. Meaning, **an IPSA will not be required unless a company voluntarily elects to describe a product as “DRC conflict free” in its CMR.**

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# Conflict Minerals

## IPSA Triggers




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# Part C

## Conflict Minerals:

Independent Private Sector Audit

Implementation

# Conflict Minerals
IPSA

## Scope of examination of IPSA

Audit objective is to express an opinion or conclusion as to

- Examine whether the **design** of the company's **due diligence framework** as set forth in the CMR is in conformity with the **criteria** mentioned in the OECD framework.
- Examine whether the company's **description** of the due diligence measures performed and the due diligence process **actually undertaken** is consistent with each other.




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# Conflict Minerals

## CMR Parts Subject To The IPSA

| | Part | IPSA? | What the auditor may look at |
|---|---|---|---|
| **1.** | **Introduction** | No | --- |
| **2.** | **RCOI description** | No | --- |
| **3.** | **Due Diligence Design and Performance** | Yes | Due Diligence Design:<br>• Conduct interviews to understand how the issuer's program design conforms to the due diligence–related steps of the OECD Framework<br>• Request documentation supporting the alignment of the issuer's conflict minerals compliance program to the OECD Framework.<br>Due Diligence Measures Performed:<br>• How the issuer identified the population of suppliers;<br>• Obtain the issuer's list of suppliers and select a sample for testing;<br>• Request evidence that the supplier was contacted (e.g., stored e-mails or logs the issuer maintained). |
| **4.** | **IPSA description** | No | --- |
| **5.** | **Product Disclosures** | No | --- |
| **6.** | **Smelter/Refiner Disclosures** | No | --- |
| **7.** | **Future Measures** | No | --- |

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# Conflict Minerals
## Independent Accountant's Report - Example

To [*insert appropriate addressee*]

We have examined:

- the design of XYZ Company's (the "Company") due diligence framework as set forth in section [*insert section reference*] of the Conflict Minerals Report for the reporting period from January 1 to December 31, 2013, and
- the Company's description of the due diligence measures it performed, as set forth in section [*insert section reference*] of the Conflict Minerals Report for the reporting period from January 1 to December 31, 2013.

Management is responsible for the design of the Company's due diligence framework and the description of the Company's due diligence measures set forth in the Conflict Minerals Report, and performance of the due diligence measures. Our responsibility is to express an opinion, based on our examination, on

- whether the design of the Company's due diligence framework is in conformity, in all material respects, with the criteria set forth in the Organisation of Economic Co-Operation and Development *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*, Second Edition 2013 ("OECD Due Diligence Guidance"), and
- whether the description of the due diligence measures the Company performed is consistent, in all material respects, with the due diligence process that the Company undertook.

***The Introductory Paragraph***

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# Conflict Minerals

## Independent Accountant's Report - Example

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, included examining, on a test basis, evidence about the design of the Company's due diligence framework and the description of the due diligence measures the Company performed, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination was not conducted for the purpose of evaluating:

- The consistency of the due diligence measures that the Company performed with either the design of the Company's due diligence framework or the OECD Due Diligence Guidance;
- The completeness of the Company's description of the due diligence measures performed;
- The suitability of the design or operating effectiveness of the Company's due diligence process;
- Whether a third party can determine from the Conflict Minerals Report if the due diligence measures the Company performed are consistent with the OECD Due Diligence Guidance;
- The Company's reasonable country of origin inquiry (RCOI), including the suitability of the design of the RCOI, its operating effectiveness, or the results thereof; or
- The Company's conclusions about the source or chain of custody of its conflict minerals, those products subject to due diligence, or the DRC Conflict Free status of its products.

***Limitations Paragraph***

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# Conflict Minerals
## Independent Accountant's Report - Example

Accordingly, we do not express an opinion or any other form of assurance on the aforementioned matters or any other matters included in any section of the Conflict Minerals Report other than section(s) [*insert reference to section(s) referenced in paragraph 1 of this report*].

In our opinion,

- the design of the Company's due diligence framework for the reporting period from January 1 to December 31, 2013, as set forth in section [*insert section reference*] of the Conflict Minerals Report is in conformity, in all material respects, with the OECD Due Diligence Guidance, and
- the Company's description of the due diligence measures it performed as set forth in section [*insert section reference*] of the Conflict Minerals Report for the reporting period from January 1 to December 31, 2013, is consistent, in all material respects, with the due diligence process that the Company undertook.

***The Opinion Paragraph***

[*Practitioner's signature*]

[*Practitioner's city and state*]

[*Date of Practitioner's report*]

Source: AICPA, Conflict Minerals Reports Questions and Answers

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# Conflict Minerals
IPSA

## Action Items to Consider

### Design:

- Policy
- Standard Operating Procedures
- Risk Management framework
- Scoping Document
- Training
- Documentation
- Gap Analysis

### Accurate Description:

- RCOI vs. DD
- Control Activities, for example:
  - Management involvement/Sign off
  - Legal/Finance review
  - Relevant IT systems
- Documentation
- Past reporting review

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*Any Questions?*



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