SHADOW
AUDIT REPORT
CONSOLIDATED REPORT

SOY MORATORIUM PROTOCOL

2020/2021 HARVEST

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GRUPO DE TRABALHO DA SOJA · GTS

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Indústrias de Óleos Vegetais

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SUMMARY

1.

INTRODUCTION

The Soy Moratorium Protocol sets out the guidelines and procedures for signatory companies to demonstrate compliance with the Soy Moratorium and for independent audit organisations to conduct the verification.

The audit organisations must carry out the audits every year and send the reports and action plans to the Assessment Committee of the Soy Working Group (SWG) within the period defined in the protocol so the results of each trader can be assessed and the consolidated publication of the verification cycle can take place.

In 2021, in order to assess the performance of the audit organisations, monitor the leveling between the organisations and their auditors and pinpoint the areas that need improvement, both in the protocol and in the application of the protocol, three audits in this cycle were monitored by Imaflora in a process known as a "Shadow Audit". The assessment covered soybean sales for the 2020/2021 harvest, comprising the period from April 1, 2020 to March 31, 2021.

What is shadow auditing?

- The shadow auditor observes the auditors' performance and assesses to what extent the auditor is correctly addressing the Soy Moratorium Audit Protocol.

- The shadow auditor is not assessing the audited company and its systems and does not interfere with the auditor's work during the assessment.

- The conditions of a shadow audit as well as the necessary arrangements must be agreed in advance between the shadow auditor, the Assessment Committee and the audit organisation.

- Lastly, the Assessment Committee is entitled to ask the audit organisation to adjust its verification processes based on the outcome of the shadow audit.

Due to the Covid-19 pandemic, all audits took place remotely and the shadow auditor attended meetings and monitored email exchanges between the auditors and the auditees. The shadow audits were carried out as shown in Table 1.

Date	Audit organisation	Auditor	Audited Company
27-28/10/2021	Control Union Certificates Association	Auditor 1	Cutrale Trading Brasil Ltda.
08-16/11/2021	Control Union Certificates Association	Auditor 2	Fiagril Ltda.
08-12/11/2021	Food Chain ID Certification	Auditor 3	Cargill Agrícola S.A.

The steps of the shadow audit, the assessment of the applicability of the Audit Protocol, the difficulties and challenges faced and suggestions for improvement are shown below.

2.

SUMMARY OF OUTCOME OF SHADOW AUDIT

In general, the auditors proved to be qualified to carry out the audits and handing in the audit plan, maintaining good communication with the audited company and carrying out the work efficiently. The audit report was sent on time to the company and the SWG assessment committee.

However, the following processes were not performed in all audits in accordance with the guidelines set forth in the Soy Moratorium Protocol:

1. Extraction of the complete list from the auditee, including clarifications pertaining to the list of contracts and the list of soybean receipts in the period. These setbacks may compromise the result of the audit since this analysis is the basis for verifying compliance with the Soy Moratorium criteria.

2. Confirmation in the audit and in the report that all types of contracts were included in the assessed lists.

3. Clear description of the procedure adopted by the company for deliveries that exceeded the contracted volume.

4. Productivity tests.

5. Signalling of NC (non-compliance) or IO (Improvement Opportunities) to adapt the supplier registries for the inclusion of the CAR management of the suppliers.

6. Signalling of NC or IO in the management system of indirect suppliers based on the risk assessment.

The audit companies demonstrated their commitment to the assessment of the Soy Moratorium protocol by attending the Workshop held on 30/Sep/2021, and scheduling and carrying out the audits within the proposed deadline.

The audited companies were very involved in the process of assessing compliance with the Soy Moratorium. The people in charge made themselves available throughout the process, the documents were sent on time and all the requested tests were carried out effectively.

The companies are implementing strict procedures in regard to blocks and are not unblocking farms that are on the Soy Moratorium List and producers who are on the Slave Labour List.

The implementation of geo-referencing and the CAR request are being implemented at very different rates by the companies, as well as procedures to avoid soybean triangulation.

Another challenge is to implement efficient management systems for indirect suppliers, even when there is a high risk of purchasing from deforested areas due to the large volume of soybean traded in this modality.

A summary of the 52 requirements assessed and the outcome of these shadow audits is shown below.

■ Complies   ■ Partially complies   ■ Does not comply   ■ Not applicable
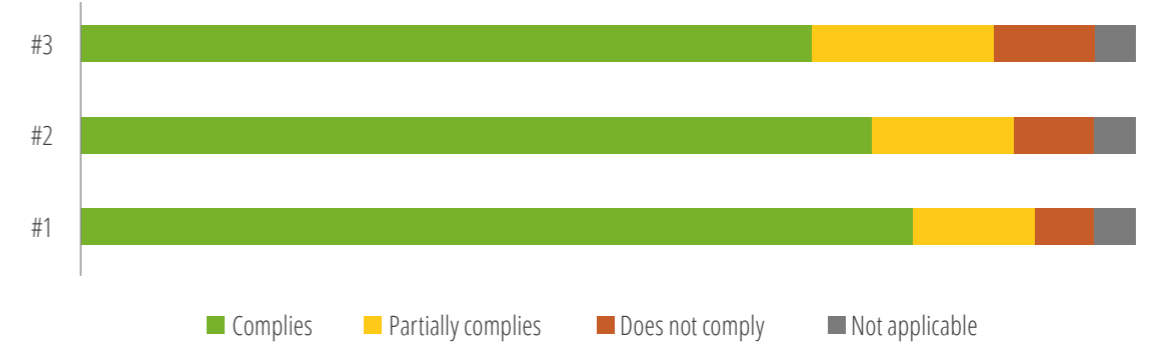
Important: the shadow audit process was finalised in the regular audit stage and does not include the review of the report by the auditor after the considerations submitted by the SWG Assessment Committee in the pre-assessment.

The pre-assessment and final assessment by the Assessment Committee were carried out without knowledge of the content of the Shadow Audit Reports in order not to influence the outcome of other companies that did not undergo the shadow audit.

3.

REQUIREMENTS ASSESSED IN THE SHADOW AUDIT

1. Audit team requirements

The 2020/2021 Soy Moratorium Audit Protocol ("SM Protocol") defines the specific qualifications, skills and knowledge that must be present in the audit teams. It also establishes that auditors must attend an Annual Training Workshop to update procedures and documentation for the Soy Moratorium audits and sign the "Auditor Confidentiality Agreement".

Overall, the auditors proved to have a good level of knowledge to conduct the audits. All attended the Annual Workshop and signed the Terms of Confidentiality.

The role of Lead Auditor of the Management System (ISO 9001 or ISO 14001) was included this year in the SM Protocol and for this reason the auditors of this cycle, who did not yet carry this title, were allowed to audit, however, it will be a mandatory requirement in the next cycle. Two of the three auditors had not previously accompanied SM audits and did not hold the title of lead auditor.

All the auditors assessed are agronomists and trained in Agricultural Supply Chain Management. All have proved to have a good level of knowledge to assess applicable data, systems and processes; understand and apply SM requirements and supplier management; and verify management systems. They understand well deforestation and conversion of native vegetation, environmental embargoes by IBAMA, the slave labour list of the Labour Ministry and the system to block and unblock soybean purchases.

The auditors did not demonstrate advanced knowledge in software management and analysis of geoprocessing systems, including the databases for deforestation and conversion of native vegetation. Questions remain in the approach to contract modalities used by the companies and how to evaluate the indirect supplier management systems. All auditors communicated effectively, requested the relevant documents and interviewed the people in charge in a clear and concise manner.

The audit organisations submitted all the supporting documents of the auditors' qualifications and experience, as requested in the protocol.

2. Audit planning

Planning the audit is an important step for the audit organisations and the audited companies to align the dates of the audit, the time required and the people who should be involved as well as other details. It is also the time when the auditor can introduce himself/herself, request documentation and assess the risks involved in conducting remote audits.

The three audits took place remotely. The auditors sent the audit plans and requested the necessary documents to start the audit. The auditors also assessed the risk for remote audits as low and requested approval to access documents and information.

All the audited companies answered the emails by approving the audit plans.

3. Desk Review

This stage of the audit is considered one of the most crucial and it is when the auditors must analyse the purchases and check for signs of non-compliant purchases or purchases with caveats in the Soy Moratorium lists.

To do so, they need to extract the list of purchases from the audited company, understand the filters used and ensure that the list includes: contracts and deliveries for the period in question, all the units that receive soybean from the Amazon Biome and all types of contracts used by the company. With the assessment of the list received and extracted in advance from the audited company, the auditor can conduct a risk analysis and define its sample to assess the documentation during the audit.

All three auditors had difficulties extracting and comparing the procurement lists. One auditor did not check deliveries in the period and did not ask about over-the-counter purchases, one auditor did not check purchases that had an "excluded" status in the list and one auditor did not mention the comparison made between the lists in the audit report. During one of the audits, the auditor asked the trader to extract the procurement list, making it clear that he did not agree with the execution of this procedure. All discussions about agreeing or disagreeing with the Protocol requirements can (and should) be done with the Committee while attending training sessions or after the work has been carried out but discussion with the client should be avoided. These setbacks may compromise the result of the audit since this analysis is the basis for verifying compliance with the Soy Moratorium criteria.

All auditors correctly performed the step of cross-checking the procurement lists with the soy Moratorium lists, no non-compliant purchases were found, and purchases with caveats were identified at this stage.

In the companies qualified as low or medium risk, the auditor defined the sampling according to the terms in the SM protocol (square root of the number of suppliers). In the company qualified as high risk, the auditor did not make it clear that he agreed with the sampling requested by the SM Protocol, and during the assessment there was a request from the trader to carry out a larger sample for blocking tests. Although the auditor classified the company's risk as high, he chose to use a much smaller sample than the square root of the number of suppliers and even though he described the company's controls in the indicator, he did not justify this choice in the assessment report.

All the audited companies carried out the tests and procedures defined in the protocol and requested by the auditors, clarifying any doubts and submitting all the required documents so that the audits could be conducted properly.

4. Audit

During the assessment, the auditors should collect evidence for each requirement:

1. The company must implement and maintain a management system for trading soybeans in the Amazon biome in order to comply with the Soy Moratorium.

2. Not trade, acquire and finance soybeans from deforested areas of the Amazon Biome after July 2008.

The auditor must analyse the company's processes and procedures, using the guiding questions indicated in each requirement of the SM Protocol.

The protocol has 10 requirements referring to the management system implemented by the company to manage its suppliers and reduce the risk of non-compliant purchases. In addition, the auditors must assess the compliance of the purchases made in the 2020/2021 cycle, in accordance with requirement 11.

The auditors reviewed the justifications for purchases from suppliers on the SM list, reporting the purchases with caveats.

The companies assessed have good management systems, which need only small improvements to meet all the requirements of the protocol. The auditors did not always point out these details as opportunities for improvement and/or non-compliances, which may hinder the traceability of the data and the evolution of the trader's system in the next cycles.

As an example, the control of CAR registration of suppliers is a mandatory requirement in the SM for the management system of the companies, and it has not yet been fully implemented by the companies and was not always mentioned by the auditors.

The management of the updates of the lists of the SM, IBAMA embargoes and slave labour were fully explained by the companies and properly assessed by the auditors.

Geomonitoring is also not 100% implemented by the companies, and some of the auditors do not have in-depth knowledge of the topic so they did not raise questions concerning the responsibilities, frequencies and databases used.

The blocking and unblocking procedures were properly tested by the auditors and the procurement procedures of direct suppliers were also well assessed.

Difficulties were found in assessing and describing the procurement procedures of indirect suppliers because the records of the audited companies are not complete. Productivity tests were not sufficiently carried out by the auditors.

Overall, the auditors used the guiding questions pertaining to each requirement and indicator in the SM protocol.

5. Audit Results

At the conclusion, the audit team must clearly and objectively inform the company of its compliance or non-compliance with the Moratorium requirements. All findings must be clearly reported in an audit report.

The auditors held an appropriate closing meeting, however, one of the auditors requested documents from a company after the closing meeting, which is not good practice.

All auditors drew up their reports and sent them to the SWG Assessment Committee for pre-assessment. All reports have items that need to be included or revised before the final version can be sent to the trader.

The shadow audit process was finalised at this stage and there was no follow-up to the review stage by the auditors after the Committee's pre-assessment.

4.

APPLICABILITY OF THE PROTOCOL

In addition to overseeing the work of the auditors during the audits, the applicability of the protocol was also monitored and a few points of concern that came up can be clarified during the report assessment, protocol revision or training for the next cycle:

- Not all the auditors were trained to be lead auditors, as required by the Protocol. This requirement may be revisited if necessary or if other training, such as internal auditor training plus the auditor's experience, can be taken into consideration.

- Currently geospatial analysis is not being assessed in detail and just understanding how the system works is enough for this monitoring. If georeferencing becomes compulsory, audit team members with this experience and knowledge will have to be included.

- It would be interesting to have a pre-approval process for auditors.

- Submitting the Audit Plan: it does not necessarily have to be sent 14 days before the audit. A previous planning communication and the sending of the plan 7 days before the assessment is carried out may be considered.

- The auditors continue to be uncertain about the scope to be assessed in the period: soybean contracts of the audited harvest and soybean deliveries in the harvest, referring to contracts of previous harvests.

- The auditors are finding it difficult to question the types of contracts that need to be included, such as the existence of an over-the-counter contract, for example.

- The pre-assessment step of the report by the SWG Assessment Committee seems to be a great option for the provision of the most complete final reports.

- The risk assessment of purchases from indirect suppliers can be further detailed in the protocol, indicating when an NC should be pointed out if the trader does not manage the origin of soybeans deriving from indirect suppliers.

- The length of time an assessment takes does not seem to be clear to auditors. It might be worthwhile finding a way to: (1) define an average assessment time taking into consideration the number of suppliers of the trader (2) carry out the assessment in two stages - a stage to assess the management system, tests and the list and, after a period of time (15 days), assess the justification documents. This was a suggestion put forward by Cargill since, due to the size of the operation and the number of people involved, collecting documents is a time-consuming process.
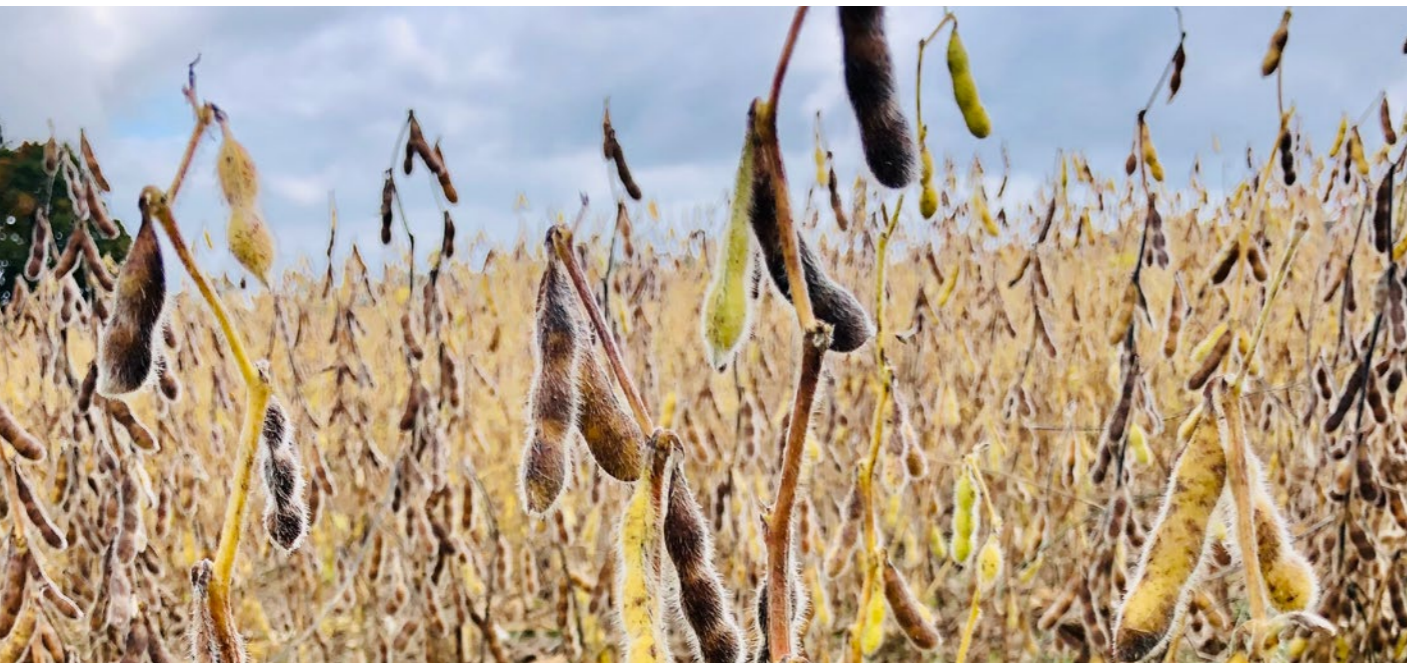
5.

CONCLUDING REMARKS

This process was implemented after a recommendation made in the 2019/2020 Soy Moratorium audit cycle, and the plan is for the results to be more consistent and for the lessons to be incorporated into the 2021/2022 cycle.

A detailed shadow audit report was drawn up and shared with each of the participating traders and audit organisations as per the attachment below.

Important: The pre-assessment and final assessment by the Assessment Committee were carried out without knowledge of the content of these Reports in order not to influence the outcome of other companies that did not undergo the shadow audit.
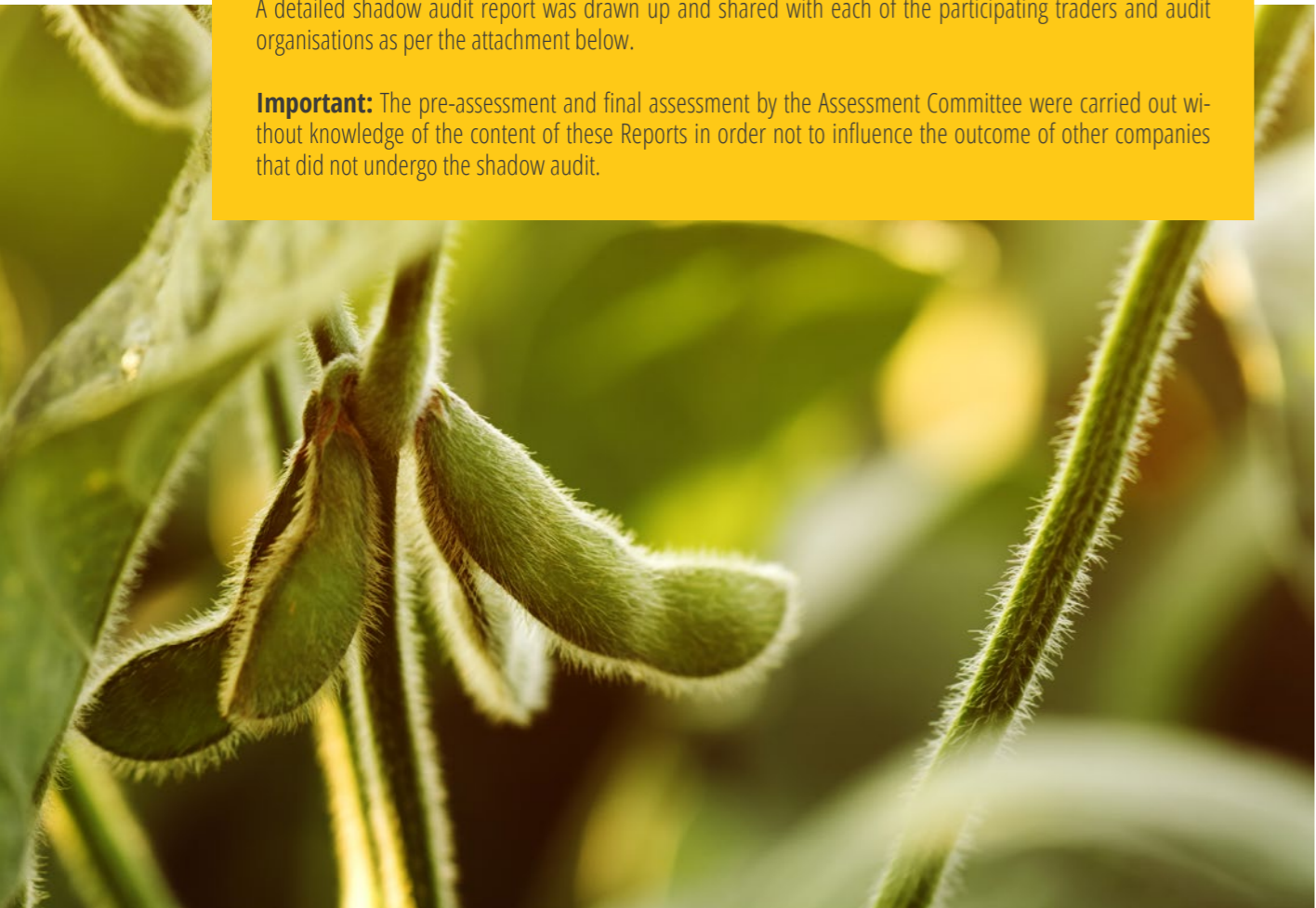
ATTACHMENT: TEMPLATE OF SHADOW AUDIT REPORT

SHADOW AUDIT REPORT

1. Introduction

2. Summary of outcome of shadow audit

A summary of the requirements assessed and the outcome of these shadow audits is shown below.

Result	#	%
Complies		
Partially complies		
Does not comply		
Not applicable		
Total	52	100%

3. General Information about the Audit

Audit organisation:	
Audited company:	
Audit period:	
Team of auditors and qualifications:	
Shadow Auditor	

4. Requirements for the audit team

The shadow auditor made comments on all requirements and defined the results as: compliant; partially compliant or not compliant.

Activity	Comments	Result
Previous Training		
Attended the Annual Training Workshop		
Signed the "Auditor Confidentiality Agreement"		
Trained as lead auditor of the management system		
Trained in agricultural supply chain management		
Trained in software management (of databases)		
Trained in analysis of geoprocessing and remote sensing systems		
Prior experience or follow-up of previous audits		
Auditor's documentation		

Activity	Comments	Result
Training Assessment		
Perceived training in the assessment of applicable data		
Perceived training in the assessment of applicable systems		
Perceived training in the assessment of applicable processes		
Effective communication, both verbal and written		
Understanding applied by the auditor in the commitment requirements of the Soy Moratorium		
Understanding applied to soybean supplier management		
Understanding applied to methodologies to verify the accuracy of geomonitoring systems		
Applied knowledge - Audit and verification of data and management system		
Applied Training on Soy Moratorium Issues		
Analysis carried out on deforestation and conversion		
Environmental embargo due to deforestation		
Slave Labour Black List		
Commercial soybean supply modes		
Purchases from direct and indirect producer		
Assessment of soybean purchase system controls and blocking systems		
Deforestation and conversion database (e.g: Prodes and Deter)		

5. Audit Planning

Activity	Comments	Result
Date of remittance of Audit Plan		
Quality of the Audit Plan (Targets, Audit Criteria, Scope, Auditors, Schedule).		
Request and verification of documents		
Risk Analysis for remote audits		
Agreement to access documents and information		
Approval of the plan by the audited company		

6. Desk Review Audit

Activity	Comments	Result
Extraction of Procurement List		
Comparison of the procurement list with the Soy Moratorium lists		
Risk analysis of the company's system		
Definition of sampling		

7. Audit

Activity	Comments	Result
Analysis of justification for supplier purchases in the Soy Moratorium lists		
Assessment of the supplier registration system		
Analysis of the Registry and update of the Soy Moratorium lists		
Analysis of the Registry and update of the environmental embargo lists		
Analysis of the Registry and update of the slave labour lists		
Analysis of the Implementation of geomonitoring systems		
Assessment of blocking and unblocking procedures		
Conducting blocking system tests		
Analysis of control procedure for purchases from direct suppliers		
Performing the productivity index assessment test		
Analysis of the control procedure for purchases of indirect suppliers		
Analysis of implementation of continuous improvement and good practices in the monitoring system		
Use of guiding questions		
Record of cross-checking the extracted list with the previously provided list		

8. Audit Results

Activity	Comments	Result
Organisation of closing meeting		
Preparation and sending of Audit Report		
Drawing conclusions and findings		
Review after pre-assessment by the Committee		
Follow-up of the remedial action plan		

9. Concluding remarks about how the audit was carried out

Notes regarding the audit organisation:
Note to the auditors:
Notes to the Committee (some points of concern can be clarified during the assessment of the reports, revision of the protocol or training for the next cycle):
Notes to the audited company: