

**Independent Reasonable Assurance Report  
(ISAE 3000 Engagement)**

For the period from 1 January to 31 December 2014

**L'azurde Company For Jewelry, JSC**

## **L'azurde Company for Jewelry, JSC**

Geneva, 18 May 2015

# **Independent Reasonable Assurance Report on L'azurde Company for Jewelry, JSC's Refiner's Compliance Report**

## **Introduction**

We were engaged by L'azurde Company for Jewelry JSC ("L'azurde") to perform a reasonable assurance engagement on L'azurde's Compliance Report dated 18 May 2015 for the Reporting Period from 1 January 2014 to 31 December 2014 (the "Refiner's Compliance Report") and the L'azurde's Corrective Action Plan dated 18 May 2015 (the "Refiner's Corrective Action Plan").

## **Scope**

The objective of this engagement is to provide an opinion on whether the Refiner's Compliance Report and Corrective Action Plan describes fairly the activities undertaken to demonstrate compliance and whether management's overall conclusion has been drawn in accordance with the requirements of the LBMA Responsible Gold Guidance Version 5 dated 18 January 2013 (the "LBMA Responsible Gold Guidance") and with the LBMA Third Party Audit Guidance Version 2 dated 18 January 2013 (the "LBMA Audit Guidance") both obtained from the LBMA's website during May 2015.

## **Management's responsibilities**

The management of L'azurde is responsible for the preparation and public disclosure of the Refiner's Compliance Report in accordance with the LBMA Responsible Gold Guidance. This responsibility includes conformance with Steps 1 to 5 of the LBMA Responsible Gold Guidance, and Implementation of a Corrective Action Plan for all non-compliances identified. The criteria identified by the management as relevant for demonstrating compliance with the LBMA Responsible Gold Guidance are the activities described within the Refiner's Compliance Report.

## **Our independence**

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

In conducting our engagement, we confirm that we satisfy the criteria for assurance providers as set out in the LBMA Audit Guidance to carry out the assurance engagement.

## **Our responsibility**

Our responsibility is to report, in accordance with ISAE 3000 standard, whether the Refiner's Compliance Report and Corrective Action Plan describes fairly the activities undertaken during the year to demonstrate compliance with the LBMA Responsible Gold Guidance and whether management's overall conclusion has been drawn in accordance with the requirements of the LBMA Responsible Gold Guidance and with the LBMA Audit Guidance.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board and the guidance set out in the LBMA Responsible Gold Guidance. This standard requires that we plan and perform this engagement to obtain a reasonable level of assurance.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about the fairness of the Refiner's Compliance Report and the Refiner's Corrective Action Plan and the fact that management's overall conclusion has been drawn in accordance with the requirements of the LBMA Responsible Gold Guidance and with the LBMA Audit Guidance. The nature, timing and extent of procedures selected depend on our judgment, including the risk of material misstatements, whether due to fraud or error, in the Refiner's Compliance Report and Refiner's Corrective Action Plan. In making those risk assessments, we considered internal control relevant to L'azurde's preparation of the Refiner's Compliance Report. A reasonable assurance engagement also includes:

- ▶ Walkthrough refiner's due diligence process to gain an understanding of implemented controls and procedures
- ▶ Discussions with refiner's management, compliance and operations team on the content of the report and various supply chain due diligence processes in place
- ▶ Site visits to the refinery to evaluate if the management system is in place as described in the compliance report
- ▶ During site visits we have interviewed personnel from the logistics, operations, safe, refining process, and accounts that are directly linked with either sourcing, processing or storing the gold
- ▶ Testing, on a sample basis, of account opening procedures and due diligence conducted before engaging with a potential gold supplying counter party
- ▶ Testing, on a sample basis, of transactions to evaluate if due diligence processes are being followed
- ▶ Review of whether systems used for registering, adapting, aggregating and reporting are satisfactory
- ▶ Obtaining and considering evidence to support the assertions and claims made in the Refiner's Compliance Report and in the Refiner's Corrective Action Plan
- ▶ Review the statements made by the management in the Refiner's Compliance Report and in the Refiner's Corrective Action Plan as compared to the findings arising from the above procedures performed
- ▶ The procedures performed relate to the Reporting Period from 1 January 2014 to 31 December 2014 and do not extend to any assertions made in the Refiner's Compliance Report regarding events subsequent to that period

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Inherent limitations**

Non-financial information, such as that included in the Refiner's Compliance Report and in the Refiner's Corrective Action Plan, is subject to more inherent limitations than financial information, given the more qualitative characteristics of the subject matter and the methods used for determining such information. The methods used by refiners to comply with the LBMA Responsible Gold Guidance may differ. It is important to read L'azurde's gold supply chain policy available on its website.

Our testing of the accuracy of selected qualitative statements in the Refiner's Compliance Report and in the Refiner's Corrective Action Plan relating to the material issues (such as management assertions and performance claims) were done through interviews and sample document reviews.

The authenticity of documents produced by gold supplying counterparties was not checked by contacting the respective government organizations.

### **Emphasis of matter**

Without modifying our conclusion, we draw attention to the description of the non-compliance contained within the Refiner's Compliance Report. This relates to inadequacies in supply chain due diligence documentation on multiple gold supplying counterparties and inadequacies in the processes for identifying and assessing risks in the supply chain.

The remedial actions described in the Refiner's Corrective Action Plan and in the Refiner's Compliance Report are under implementation by the Refiner and the results of such corrective actions are expected to be realized subsequent to the period of review. The full effectiveness of the Refiner's Corrective Action Plan will be reviewed as part of a future compliance review.

### **Opinion**

In our opinion, the Refiner's Compliance Report for the period from 1 January 2014 to 31 December 2014 and the Refiner's Corrective Action Plan dated 18 May 2015 describes fairly the activities undertaken during the reporting period to demonstrate compliance and management's overall conclusion contained therein is in accordance with the requirements of the LBMA Responsible Gold Guidance, Version 5 dated 18 January 2013 and with LBMA Third Party Audit Guidance Version 2 dated 18 January 2013 (both obtained from the LBMA's website during May 2015).

Ernst & Young Ltd



Mario Mosca  
Licensed audit expert



Zakaria Zammou  
Licensed audit expert

### **Enclosures**

- ▶ L'azurde's Compliance Report dated 18 May 2014



L'azurde Company For Jewelry

Saudi Joint-Stock Co.

C.R : 1010221531



شركة لازورد للمجوهرات

شركة سعودية مساهمة مغلقة

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## LBMA Supply Chain Due Diligence Compliance Report 2014

**Introduction :** L'azurde Company for Jewelry JSC is a Jewellery manufacturer and refiner in the Kingdom of Saudi Arabia. The core business of L'azurde is Jewellery manufacturing. The customers of L'azurde provide the fine gold or scrap Jewellery to Lazurde as payment in return of the Jewellery purchased. L'azurde does not accept mined gold from any counterparty, L'azurde accepts scrap jewelry only from KSA based counterparties. The scrap gold is always accepted in form of jewelry and never in form of scrap bars. International counterparties are only allowed to send fine pre refined bars to L'azurde.

### Business Model:



**Table 1 : Refiners details.**

Refiner's Name	L'azurde Company for Jewelry JSC.
Location	2 <sup>nd</sup> Industrial Area , Riyadh – 11521 , Kingdom of Saudi Arabia.
Reporting Period	1 January 2014 to 31 December 2014
Date of Report	18 May 2015
Senior Management responsible for the report	Selim Chidiac, Chief Executive Officer

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This report summarizes Lazurde company of Jewelry JSC (L'azurde) efforts to implement the LBMA Responsible Gold Guidance during the year 2014 and how L'azurde complies with the requirements of the LBMA Responsible Gold Guidance.

### Lazurde's evaluation

The following table lists the minimum requirements that must be satisfied by refiners in accordance with the *LBMA Responsible Gold Guidance* to demonstrate compliance.

**Table 2 : Summary of activities undertaken to demonstrate compliance**

<b>Step 1: Establish strong company management systems</b>	
<i>Compliance Statement with Requirement</i>	We have fully complied with step 1: Establish strong management systems.
<i>Has the Refiner adopted a company policy regarding due diligence for supply chains of Gold?</i>	<p>Yes we have adopted a company policy regarding the due diligence for supply chain of Gold.</p> <p>We have been continuously improving our Supply Chain policy we established in 2012 which we updated in 2013 and in 2014. The policy is based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The policy covers all the topics as mentioned in step 1.1 of the LBMA guidance.</p> <p>In 2015, we developed a detailed document formalizing the procedures required to implement our Supply Chain policy – the Customer Evaluation Policy and Procedures will help us to streamline the implementation of the supply chain due diligence process.</p>
<i>Has the Refiner set up an internal management structure to support supply chain due diligence?</i>	<p>We assigned authority and responsibility to Senior Management to oversee the supply chain due diligence process. The Chief Financial Officer, the Group treasurer and the Refinery Manager were assigned the task of overseeing the supply chain due diligence process. Collectively they have the necessary competence and experience to oversee supply chain due diligence.</p> <p>We have proper communication process in place, the compliance team directly communicates with the operations, accounts, administration and the refinery team with respect to the supply chain due diligence.</p>
<i>Has the Refiner established a strong internal system of due diligence, controls, and transparency over gold supply chain, including trace ability and identification of other supply chain actors?</i>	<p>L'azurde has systems to trace back a given gold bar to the melt lot and the melt lot to the related counterparties. L'azurde maintains records for more than five years.</p> <p>In 2014, we made great progress in assessing our supply chain for risk from 2013 by adopting our own risk assessment tool to assess our suppliers. We vigorously utilized our resources to conduct the risk assessment and will continue till we apply to all of our suppliers. We adopted a strategy to discontinue business relationship with customers</p>

	<p>if they were not able provide us the requested due diligence documents.</p> <p>We understood the importance of continuous training and in 2014 we had formal training sessions for L'azurde employees on our supply chain process. The compliance team took the lead in conducting training programs to our sales team on our Supply chain policy.</p>
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<p><i>Has the Refiner strengthened company engagement with gold supplying counterparties, and where possible, assisted gold supplying counterparties in building due diligence capabilities?</i></p>	<p>We believe customer engagement is key to the success of effective implementation of our Supply Chain policy. We made good progress from 2013 and in 2014 we conducted onsite meetings and explained our supply chain policy. Given the nature of the business in KSA to strengthen our engagement with our customers, we translated our Supply chain policy to Arabic and sent the translated policy by courier to more than 100 suppliers in the region. In 2015 we also started getting written acknowledgement from our customers to commit to our Supply chain due diligence policy.</p> <p>In 2015, we also updated our Customer Information Request form to have a declaration by the counterparties on the above point.</p> <p>During our onsite visits in 2014 to our suppliers we informed our counterparties that we shall not accept any mined gold from our counterparties in KSA. We also clarified to our customers outside KSA that we would only accept fine bars from them. These two steps were the key foundation for our due diligence practice.</p>
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<p><i>Has the Refiner established a company-wide communication mechanism to promote broad-based employee participation and risk identification to management?</i></p>	<p>Yes we have a mechanism wherein any employee can directly voice its concern to the compliance officer. No significant concern/feedback was received by L'azurde during the year 2014.</p> <p>L'azurde has a Policy &amp; Procedure of gold sourcing from Bank &amp; Retail dealers</p> <p>(i) In case of a risk being identified the concerned employee reports to Senior Management who may escalate the matter to the Legal Officer. Senior Management and Legal officer can be contacted in person or through emails.</p> <p>(ii) Production, Administration, Sales &amp; marketing team, retail dealers, hold monthly meetings headed by E.G.M./ CFO / CEO for Business review as a wide communication mechanism to aid participation and risk identification.</p>
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### Step 2: Identify and assess risks in the supply chain

<p><i>Compliance Statement with Requirement:</i></p>	<p>We are not in compliance with step 2: Identify and assess risks in the supply chain.</p>
<p><i>Does the Refiner have a process to identify risks in the supply chain?</i></p>	<p>The risk of human rights abuse, support to non-state armed groups and the risk of contribution to conflict was identified by L'azurde and it was specifically communicated to all salesman that L'azurde would not accept mined gold from any KSA customer. Further L'azurde accepts only fine gold from customers outside KSA.</p>



	<p>For recycled gold, L'azurde only accepts it from KSA suppliers and in the form of jewellery. Recycled bars / scrap jewellery bars are not accepted.</p> <p>To strengthen the above process, in 2014 we developed a proper risk assessment matrix and in 2015 with formally documented the risk assessment approach through our Customer Evaluation Policy and Procedures to streamline the supply chain risk assessment process.</p> <p>We implemented the above risk assessment matrix during the reporting period and by May 2015 were able to apply the tool to about 54% of all our clients and the results shows that none of our clients are of high risk in nature.</p>
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<p>Does the Refiner assess risks in light of the standards of their due diligence system?</p>	<p>We had identified the risk associated with mined gold and therefore had decided that we would not accept any mined gold in our refinery.</p> <p>We accepted recycled gold in jewelry only from jewelers in KSA and these jewelers are expected to follow the AML regulations of KSA.</p> <p>We received only fine gold bars from international counterparties, however we did not collect their AML/CFT policies.</p> <p>In 2014, we implemented the formal risk assessment for at least 50% of the customers which is based on the KYC documents we collected for about 50% of our clients.</p> <p>We continue to collect the documents for the remaining customers most of which were our counterparties having long-term relationships with us and based in KSA. By May 2015, we achieved good progress and on track to collect all the customer information by end of 2015.</p>
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<p>Does the Refiner report risk assessment to the designated manager?</p>	<p>Yes.</p>
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**Step 3: Design and implement a management system to respond to identified risks**

<p>Compliance Statement with Requirement</p>	<p>We have fully complied with step 3: Design and implement a management system to respond to identified risks</p>
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<p>Has the Refiner devised a strategy for risk management of an identified risk by other (i) mitigation of the risk while continuing the trade. (ii) Mitigation of the risk while suspending trade or (iii) disengagement from the risk?</p>	<p>We continue our risk mitigation strategy we adopted in the year 2013 which is not to accept any mined gold from the counterparties due to our very business nature.</p> <p>In 2014 we enhanced our strategy by doing proper risk assessment by getting details of the customers with KYC forms and proper world check conducted. Risk assessment rating has been given to each customer. If the counterparties are not sharing the relevant documents to assess the risk, we developed a strategy to discontinue business relationship with such customers.</p>
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<p>Where a management strategy of risk mitigation is undertaken, it should include measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated management.</p>	<p>In 2014, we formalized our risk management strategy (by conducting risk assessment of suppliers) which builds on our 2013 decision of not to accept any form of mined gold.</p> <p>To strengthen the management strategy in 2015, we developed procedure to formalize the risk mitigation strategy in the name of 'Customer Evaluation Policy and Procedures' which clearly instructs the compliance team and other relevant employees to have a monitoring plan of customers and regular reassessment to ensure compliance to our Supply chain policy.</p>
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#### Step 4: Arrange for an independent third-party audit of the supply chain due diligence

Compliance Statement with Requirement	We have fully complied with step 4: Arrange for an independent third-party audit of the supply chain due diligence
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Comments and Demonstration of compliance	Ernst and Young ("EY") Switzerland have conducted a reasonable assurance audit of the Company's due-diligence practices in accordance with the International Standard in Assurance Engagements ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000). The audit was conducted in line with guidance and protocols provided by the LBMA.
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#### Step 5: Report on supply chain due diligence

Compliance Statement with Requirement	We have fully complied with Step 5: Report on supply chain due diligence
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Comments and Demonstration of compliance	Our compliance Policy is available on our website, and the present Compliance Report and associated independent reasonable assurance report will be available on our website when issued.
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L'azurde's overall conclusion:

#### Table 3 : Management conclusion

Is the refiner in compliance with the requirements of the LBMA Responsible Gold Guidance for the Reporting Period?

In conclusion, although 2014 was a great progress year for L'azurde, in overall L'azurde has not complied with the LBMA Guidance during the reporting period as we are in the process of implementing management systems, procedures, process and practices to conform to the requirements of the guidance as detailed above.

We partially comply with some of the requirements of LBMA Guidance and have taken corrective actions for the gaps identified in 2014. L'azurde is committed to continuous improvement, and implement the corrective actions for the identified partial compliances in the Step 2 and monitor internally on a regular basis to achieve full compliance during the next reporting year.