

# BCI Supply Chain Audit Guidance

2018

## Introduction

This document sets out the basic process for verifying that a supply chain company meets the relevant requirements from the Better Cotton Chain of Custody Guidelines v1.3. This document is applicable for third-party auditors carrying out BCI supply chain audits.

Auditors are expected to follow the general guidance in this document. However, the specific procedures followed during an audit and records or evidence requested may vary in practice depending on the context and any findings during the visit.

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## 1. Planning the visit

Auditors should provide the supply chain company with written notification of an audit between 7 and 10 calendar days ahead of the scheduled visit. If the company identifies exceptional circumstances related to the proposed audit schedule, auditors can communicate with the company to find an alternate date, ideally not more than 10 days in advance.

The notification should clearly state the purpose of the audit, the names and roles of those who will be carrying out the audit, the expected schedule, and any requirements for access to staff/ workers or documents.

The notification should include a copy of the following documents:

- Better Cotton Chain of Custody Guidelines v1.3
- BCI Supply Chain Audit Guidance (this document)
- BCI Supply Chain Audit Reporting Template

The company being audited may also be asked to provide (or confirm) basic operating information at this time, such as contact names and details.

If non-conformities have been identified during a previous audit or monitoring visit, the company may also be requested to provide a copy of the corrective action plan.

Ahead of the audit, auditors will be provided with a download of the company's BCP transactions along with 5-10 transactions identified by BCI for mandatory review. The auditor will then identify a further 5-10 transactions for review ahead of the audit or while onsite, focusing on any potential risk areas such as high volume, duplicate, or unusual transactions. *See also Section 4. Transaction Verification for further detail on selecting transactions.*

## 2. Opening meeting

All supply chain audits should start with an opening meeting with the designated BCI Contact present (other representatives from the company may join as well). During this meeting, auditors should cover the following points:

- a) Clearly explain the purpose of the audit, with a reference to checking compliance with relevant sections of the *BCI Chain of Custody Guidelines v1.3*
- b) Explain the confidentiality of information collected during the visit, noting that all documents, interview findings, and related information will be shared only with BCI and the auditing company for the purpose of ensuring the Chain of Custody requirements are met. Information will not be shared with any additional third-parties.
- c) Review the components and expected schedule for the visit, including the management interview, transaction verification, and closing meeting.
- d) Briefly explain next steps after the visit, including generating a follow-up report
- e) Invite any questions, clarification, or comments from the BCI Contact or other attendees.

In many cases the opening meeting will lead directly into the Management Interview/ Documentation Review. However, it is important that time is spent covering these points right at the beginning of the visit so that the company's management team fully understands the purpose and potential outcomes of the audit.

### 3. Management Interview/ Documentation Review

This section of the audit includes an interview with the BCI Contact and other relevant staff responsible for implementing the Better Cotton Chain of Custody requirements. For example, this might include individuals responsible for entering data into the Better Cotton Platform (BCP), managing procurement records, or those handling BCI orders.

#### 3.1 Responsibilities, training, and record-keeping

*Guidance note for audit reporting: This section relates primarily to requirements under section 5.1 of the CoC Guidelines 'Responsibilities, training, and record-keeping'*

##### Sample interview questions

1. Please provide a brief overview of your process for receiving and fulfilling BCI orders, including how these are identified through documents and how information is entered into the BCP.
2. *[If not already covered in opening meeting]* Please confirm your designated BCI contact person responsible for ensuring compliance with the Better Cotton Chain of Custody (CoC) Guidelines
  - a. Which other individual(s) are responsible for implementing CoC guidelines; for example, entering data into the BCP, or maintaining record of BCI orders (purchases/sales)?
  - b. How do you ensure that these individuals are trained and competent to carry out their relevant responsibilities?
3. Do you have any training records or materials? How do you inform staff or workers about their roles with respect to BCI CoC?
  - a. What happens if staff or workers leave or change positions?
4. Have the individuals responsible for using the BCP completed the mandatory training offered through BCI?
  - a. Do you have any confirmation of this?
5. Do you have a system to maintain all purchase and sale documents related to BCI orders for a period of 2 years?
  - a. How are these documents stored? In what form?
  - b. Who is in charge of maintaining them?
  - c. How do you ensure that documentation relates to Better Cotton transactions?
  - d. How easily can they be accessed by BCI on request?
6. Have you had any recent changes in BCI contact person, your procurement processes, or outsourcing (subcontracting) arrangements?
  - a. If so, did you notify BCI of these changes?

##### Sample documents to check

- Training records or materials
- Example purchase, or sale records related to BCI orders from previous 2 years
- Evidence of BCP training completed
- Evidence of notifying BCI of any changes in contact persons, procurement or outsourcing (i.e. copy of email)

## 3.2 Use of the Better Cotton Platform (BCP)

*Guidance note for audit reporting: This section relates primarily to requirements under section 5.2 of the CoC Guidelines 'Use of the Better Cotton Platform'*

### Sample interview questions

1. Can you confirm who is responsible for entering data into the BCP?
2. What happens if that person is ill, away or unavailable?
3. How and when were these individuals trained on using the BCP?
4. *[Questions for the individuals responsible for BCP data entry]*
  - a. Please explain the process for entering data into the BCP
  - b. How and when does this happen?
  - c. How do you enter transaction reference numbers? What do they relate to? (i.e. invoice numbers?)
  - d. What do you do if you have any questions about how to use the BCP? Who do you contact?
5. Are there areas where you could use more training or support on how to use the BCP?
6. How do you ensure that data entered in the BCP always relates to an actual physical purchase/ sale of physical Better Cotton products (i.e. products sold with a Better Cotton claim to fulfil a BCI order)?
7. Do you carry out any checks to make sure transactions entered in the BCP are accurate and can be supported against documentation? What do you do if you find any errors?
8. Use of Output Declaration Forms (ODFs):  
*[Guidance Note: This section relates to Output Declaration Forms (ODF) which are used to transfer BCCUs between suppliers, manufacturers and retailers when one or more of the suppliers in the chain is not using the Better Cotton Platform (BCP). If the company is not using ODFs, this section may be skipped.]*
  - a. Do you generate ODFs to transfer BCCUs to customers who are not using the BCP?
  - b. If yes, please explain how this process works
  - c. Who is responsible for generating and sending ODFs?
  - d. How and when do you send ODFs to your customers?

### Sample documents to check

- Transaction summary from the BCP
- Purchase orders to the supplier, sales invoice from the supplier, goods receipt
- Shipping/delivery document, dispatch note, waybill (UIC)
- Sample of ODFs (if relevant)

## 3.3 Subcontractors and supply chain monitoring

*Guidance note for audit reporting: This section relates primarily to requirements under section 5.3 'Nonconforming product', 5.6 'Subcontractors' and section 5.8 'Supply chain monitoring and penalties' in the CoC Guidelines*

## Sample interview questions

1. Have you ever received an order for Better Cotton products where either the transfer of BCCUs didn't match the details of the order?
  - a. Or have you ever received BCCUs from a supplier without a physical shipment of cotton being received?
  - b. In these cases, did you verify the details with the supplier first before acknowledging the purchase in the BCP?
2. Do you use any subcontractors to handle or process Better Cotton (aside from transport companies)?
  - a. If so, what activities do these subcontractors do?
  - b. Do you have an outsourcing agreement or contract?
  - c. Do you have a signed declaration in place with any subcontractors handling Better Cotton products?
  - d. Was there any change if the subcontracting terms and condition or change of subcontracting party?
  - e. Do any subcontractors have access to the BCP?
  - f. How do you ensure that subcontractors fully understand the relevant Better Cotton CoC requirements and are competent to follow these? Please give examples? Do you provide any type of training and who does the training for them?
3. Have you had any previous requests for documents to be sent to BCI or third-party auditors?
  - a. If so, how and when were documents provided?
4. Did you receive any previous audits or monitoring visits from BCI or third-party auditors?
  - a. If so, have you had any non-conformities observed during a previous audit?
    - a. What actions did you take to close them?
    - b. What was the timeframe for correcting these?
    - c. How did you verify if corrective actions were effective?

## Sample documents to check

- List of subcontractors
- Outsourcing contracts
- Signed subcontractor declarations
- Evidence of documents submitted to BCI or auditors for remote verification
- Non-conformity reports from previous audits, along with corrective action plan and evidence that corrective actions have been implemented

## 5. Transaction Verification

*Guidance note for audit reporting: This section relates primarily to requirements under section 5.2 of the CoC Guidelines 'Use of the Better Cotton Platform' and section 5.4 'Output Declarations'*

This section of the audit looks at a selected set of purchase and sale transactions to ensure that data entered into the BCP is accurate, complete, and can be validated against documents or records maintained by the company. If the company is using Output Declaration Forms (ODFs), these will also be checked when transactions are reviewed.

### Sample Selection:

1. An initial set of 5-10 transactions will be identified by BCI ahead of the audit and provided to the auditor. These transactions are mandatory to review during the audit
  - However, in some cases a purchase or sale transaction as entered into the BCP may include numerous separate purchase/ sales aggregated together. In this case, the auditor may use his/her professional discretion to select a sample of individual purchases/ sales to validate against supporting documentation for each main 'transaction' as entered into the BCP
2. Auditors should select an additional 5-10 transactions to review either before and/or during the audit. These should be selected based on the following factors:
  - Any unusual transactions – e.g. very high volumes or purchases late in the season
  - Range of time periods – from recent transactions back to the previous year
  - Range of suppliers/ customers
  - If relevant, include a sample of sales to customers who are not using the BCP – this will verify that that Output Declaration Forms (ODFs) are correctly generated from the BCP and passed to customers
3. Additional transactions can also be added to the sample at the auditor's discretion– for example due to high volume in transactions or gaps/ questions with records provided for the initial transactions

### Verification

1. For each selected transaction in the sample, request to review the corresponding records that will confirm the data as entered in the BCP is accurate and corresponds to a legitimate purchase or sale of cotton/ cotton-containing products:
  - a. For purchase transactions, ask for delivery slip as well as supplier invoice/contracts
  - b. For sales transactions, ask to see delivery/ shipping documents as well as invoice/ contracts
2. For each selected transaction<sup>1</sup>:
  - a. Check the BCP data entry vs shipping date (confirm these are within the 60-days timeframe specified in the Chain of Custody Guidelines).
  - b. Confirm dates and volumes are consistent across records and with BCP data
  - c. Confirm that transactions in the BCP can be linked to records via unique transaction reference numbers (e.g. invoice or delivery slip number). If the entry in the BCP relates to multiple purchases/sales, verify a sample for each separate purchase/sale.
    - i. *[Note that transaction reference numbers are mandatory only for transactions entered after 1 August 2018 when the CoC Guidelines v1.3 came into effect].*
3. Where relevant, for a sub-set of transactions, check that the weight of raw materials used to make cotton-products sold as Better Cotton can be verified (e.g. total net weight of carded yarn used to make a specific fabric)
4. For Fabric Mills or End-Product Manufacturers only:
  - a. If the company has fulfilled an order for Better Cotton products from a customer but has transferred BCCUs directly to the end buyer (e.g. retailer), check the names of both the actual customer and the end buyer are entered into the BCP.<sup>2</sup>

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<sup>1</sup> For companies not using the BCP, this step will require checking the Output Declaration Form (ODF) received against records/documentation

<sup>2</sup> Refer to the Better Cotton Chain of Custody Guideline v1.3, clause 5.2.6

- b. A unique document reference (e.g. purchase order number) for the shipment must also be included in the entry.
- 5. For spinners only:
  - a. If there are orders for blends with non-cotton fibre, check that the volume of lint cotton is the basis for declaring the purchases and sales entries in the BCP.<sup>3</sup>
- 6. If the company is passing Output Declaration Forms (ODFs) to customers who are not using the BCP:
  - a. Check that ODFs contain all required details
  - b. Verify that the buyers name on the ODF matches the name of the company invoiced for the sale of Better Cotton products (rather than the name of the end-user, such as a retailer or brand)<sup>4</sup>
  - c. Verify that ODFs were sent to the correct customers as indicated in the BCP (e.g. through checking email records)
- 7. For Brands/ Retailers who are receiving ODFs from suppliers:
  - a. Verify that the Brand/ Retailer is correctly adding BCCUs to their BCP inventory as indicated in the ODFs received<sup>5</sup>

*Guidance note: In some cases, companies may not be able to locate requested documents within the timeframe the auditor is onsite; for example, due to records being maintained in a different office. In these cases, if a legitimate reason is supplied, the auditor may set a timeframe to receive the requested documents after the audit (e.g. within 24 hours) and documents may be sent via email. Companies should be notified that if a significant number of records cannot be located, or there is a concern that documents may be incomplete or falsified, this may still constitute a non-conformity with the Chain of Custody Guidelines (even if records are later found and submitted).*

## 6. Closing Meeting

The aim of the closing meeting is to sit down with the BCI Contact and/or other relevant management and review the preliminary findings of the visit. It is critical that the company fully understand any issues or *potential* non-conformities that have been identified and the next steps after the visit.

During the closing meeting, the auditor should cover the following points:

1. Thank the management team for their time and support during the visit
2. Explain first any areas where the company is performing well – for example, staff that clearly understood their responsibilities, effective record-keeping systems, etc.
3. Identify any areas where further improvement may be needed to fully meet the relevant Chain of Custody requirements
4. Clearly explain any *potential* non-conformities observed during the visit, including a reference to the relevant Chain of Custody requirement and a description of the objective evidence discovered.
  - a. Give the company a chance to ask questions or provide further explanations/ evidence at this point, which may influence conformity

<sup>3</sup> Refer to the Better Cotton Chain of Custody Guideline v1.3, clause 5.2.7

<sup>4</sup> Refer to the Better Cotton Chain of Custody Guideline v1.3, clause 5.4.1-c

<sup>5</sup> Refer to the Better Cotton Chain of Custody Guideline v1.3, clause 5.4.2



- b. Clarify that any findings will be discussed and reviewed by Senior BCI Management; the company audited will receive the final report within 2 weeks of the visit.
5. Provide an overview of the follow-up process to address minor and/or major non-conformities (if relevant), including that:
  - a. The company will receive a Corrective Action Plan template along with the final report within 2 weeks; this is to be completed and sent back to BCI within another 2 weeks
  - b. The company is expected to carry out an investigation to understand the root cause of any non-conformities before identifying corrective actions
  - c. BCI or auditors may follow up directly (either remotely or in-person) to request evidence that corrective actions have been implemented
6. Explain and confirm next steps, including:
  - a. The company will receive the final report (including any non-conformities) within 2 weeks
  - b. If there are any questions, the company should get in touch with the local BCI Supply Chain team
  - c. The company will also receive a short survey asking for feedback on the audit process; this is important to help BCI improve its procedures and monitor audit processes
  - d. If the company has a legitimate concern about the outcome of the audit (after the final report is received), they can refer to the Appeals process outlined in the *Better Cotton Chain of Custody Guidelines v1.3*