

PRIVATE AND CONFIDENTIAL



Better Cotton March 31, 2025 Audit

Internal Control System «ICS» Review

25 February, 2025



Statutory audit scope

Better Cotton Initiative, trademark registered as Better Cotton, Châteline (‘‘Better Cotton’’ or the ‘‘Association’’) is subject to ordinary audit as per Swiss Code of Obligations (‘‘CO’’).

The scope and subject matter of the audit engagement are defined by law. In accordance with the provisions of Article 727 par. 1 CO, a statutory audit (as referenced under Article 728a ff CO) of financial statements is to be conducted.

The object of the ordinary audit is to issue an opinion on:

- whether the financial statements are in accordance with the law and the Association's statutes on one hand, and
- if an Internal Control System (‘‘ICS’’) exists with respect to the preparation and presentation of the financial statements, and if it has been applied in accordance with the policies defined by the Council of the Association.

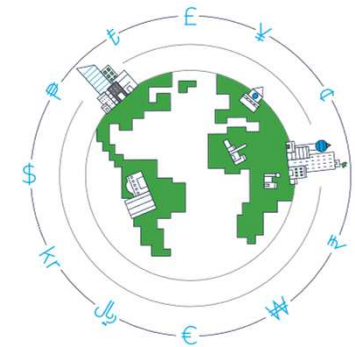
The auditors of any entity, subject to an ordinary audit:

- have to examine and confirm the existence of an Internal Control System (‘‘ICS’’) (Art 728a para 1 cif 3 SCO), taking into account the internal control systems when they determine the scope of and perform the audit,
- have to submit to the board of directors / council of the association a comprehensive report with their findings on, among other topics, the ICS and submit to the general meeting as written summary report that integrates the results of the ICS examination

These procedures within the scope of the ICS existence audit are designed to make an assessment concerning the design and implementation of the ICS. The audit procedures performed by us do not cover all entity level controls, all process controls and all IT general controls.

For our audit opinion on the ICS existence, only our findings regarding the existence of the ICS are relevant, and not our findings concerning the effectiveness of the internal controls. Nevertheless, we think that these findings are important information for the Council of the Association.

The operating effectiveness of the internal controls system was not within the scope of the audit and we do not provide assurance thereon.



Internal control system requirements

It is the duty of the Council of the Association to establish basic principles and parameters of ICS, to assure that it is implemented by management, and to ensure that management controls and reports on effectiveness.

The duty of the auditor is to verify the existence of the ICS but no further work by the auditor is required on the functioning and effectiveness of the ICS.

The Internal Control System (ICS) refers to the entire range of internal controlling mechanisms which contributes to the monitoring of the important operational processes within an organization.

ICS aims at ensuring efficient and secure processes and preventing errors and irregularities (either deliberate or unintentional).

Revenue – BCP / Traceability I/II

Observation	Recommendation	Better Cotton Management's response
Currently, BCP suppliers are required to submit a company registration document alongside their online application. This is cross-verified against a public online register to ensure the applicant is a registered legal entity.	We recommend extending the due diligence process to include additional research on the company, such as identifying any pending litigation or significant media exposure.	To date the risk has been seen as low and we have prioritised the company registration check. Further checks would require additional resources. In FY26, we will investigate if more automated or semi-automated checks can be added alongside the company registration checks.
Tracking in the online application process relies exclusively on individual locations.	We recommend extending supervision to include Switzerland as well. Our understanding is that this control is already under review and in the process of being implemented.	A new process is being implemented where the global monitoring team will check and report on completeness for all regions monthly.
Offline applications are primarily used for renewals and some new applications. However, the offline process poses challenges with VAT rates. Specifically, the system defaults to an 8.1% VAT rate when no rate is specified, even for foreign entities where no VAT should apply.	We would also recommend a possibility on your web page to distinguish directly the two possible application. One for the new members (already exist), one for the renewal directly linked to your software instead of uploading it manually as an offline application. To enhance efficiency and accuracy, the offline process should be reviewed, modified, or eliminated.	Links for renewals are individual links that cannot be shared online but are sent directly to renewing companies. The offline application is used when, in specific cases, the online application is not permitted by the system. We will review the offline application process in FY26.

Revenue – BCP / Traceability II/II

Observation	Recommendation	Better Cotton Management's response
To address the FY24 IT issue related to the invoice schedule (revenue/deferred revenue), the finance team performs checks to help ensure the accuracy of the system-generated invoice schedule.	We recommend to enhance the process by introducing documentation and traceability, as it primarily depends on one individual.	Process is currently being implemented as part of the closing checklist.
Unpaid invoice reminders are no longer automatically generated by the system, as they were previously. The process is now manual and requires the team's involvement, along with a weekly meeting to review the aging of accounts receivable balances.	To enhance efficiency and reduce manual workload, we recommend automating the generation of unpaid invoice reminders within the IT system.	Process is currently being implemented.
The extraction and reconciliation processes currently seem to be managed in an informal manner, with certain controls being performed manually through Excel file extractions rather than following a fully documented and structured approach. While this method may be practical, enhancing formal documentation could help reduce the risk of inconsistencies and errors, as well as facilitate auditing and process reviews	To improve the reliability and transparency of the extraction and reconciliation processes, we recommend better further formalizing and documenting key controls. This could include developing a clear, documented procedure for each step of the process. By doing so, the process will become more standardized, reducing the potential for errors.	Process is currently being implemented as part of the closing checklist.

Operating expenses

Observation	Recommendation	Better Cotton Management's response
Certinia serves as a centralized platform for managing invoices, purchase orders and payments. However, many controls within the platform are still performed manually, which increases the risk of errors or incorrect submissions.	To reduce the risk of mistakes and improve efficiency, we recommend automating key controls within Certinia. This would help streamline the process, reduce human error, and ensure more accurate and timely submissions.	Agreed
The FX rates are currently updated manually each month through an Excel file, with subsequent modifications made on Certinia. Any delays in uploading the file can result in conversion errors, potentially affecting the accuracy of accounting entries.	To minimize the risk of delays, inaccuracies, and dependency on personnel availability for FX rate updates, we recommend implementing an automated FX rate update system. This system should integrate real-time or scheduled data feeds from a reliable FX provider.	Agreed
During our review of the supplier onboarding process, we noted that initial due diligence and documentation requirements appear to be relatively limited. While the current process allows for quick supplier setup, it may not fully address key risk factors such as supplier reliability, compliance, and financial stability.	We recommend strengthening the supplier onboarding framework by incorporating more structured due diligence steps. This could include implementing standardized risk assessments, enhancing documentation requirements, and introducing periodic supplier reviews to ensure ongoing compliance and risk mitigation.	Agreed

Provisions I/II

Observation	Recommendation	Better Cotton Management's response
The provision for bad debt is currently calculated manually. Manual calculations may be time-consuming and inefficient, especially when dealing with large volumes of data.	We recommend automating certain mathematical aspects of the calculation. This could be achieved through the implementation of spreadsheet-based formulas or dedicated accounting software with built-in bad debt provision features. Additionally, validation checks can be introduced to flag anomalies and ensure data integrity. Periodic reviews of automated calculations will also help confirm accuracy	Agreed
The current risk and control matrix related to provisions appears to be limited in scope and lacks the necessary depth to comprehensively address potential financial and operational risks.	It is recommended to improve risk and control matrix by expanding the documentation. This should include a detailed assessment of key risk factors such as estimation uncertainties, assumptions used in provision calculations, and the adequacy of supporting evidence. Additionally, the implementation of more formalized control mechanisms, comprehensive approach to documenting these controls will improve transparency and also facilitate their effective implementation and monitoring.	Agreed

Provisions II/II

Observation	Recommendation	Better Cotton Management's response
There does not appear to be a structured method in place to ensure that all steps in the provision review process are consistently followed, which may lead to occasional oversights.	Implementing a structured method, such as a standardized checklist or documented workflow, could help ensure that all steps in the provision review process are followed. This would reduce reliance on individual memory or judgment and instead create a more process-driven approach, minimizing the risk of oversights.	Agreed
The tracking of provision usage and related spending is not always clear during the year, making it difficult to assess the alignment between actual expenses and provisions, from accounting perspective. This can lead to challenges in financial reporting.	Introduce more frequent updates on provision usage, ensuring clear tracking of spending versus releases to the income statement. Regular reconciliations will improve clarity and accuracy.	This is part of our close checklist – we have been late with certain reconciliations.

Entity level controls, governance

Observation

We acknowledge the strong presence and active involvement of the Council in overseeing operations and the internal control environment. Their engagement plays a significant role in maintaining effective governance and ensuring that internal controls are properly monitored and adhered to across the organization.

Last year, an IT issue arose related to the income schedule; however, Better Cotton took swift and effective action to resolve it. Through close collaboration with their IT provider, Certinia, the system was upgraded, thoroughly tested, and fully fixed by September 2024. To ensure the issue does not recur, Better Cotton implemented additional controls, including automated confirmation emails, quarterly financial reconciliations, and comprehensive process documentation. These proactive measures reinforce system reliability and demonstrate Better Cotton's commitment to maintaining a robust and efficient financial process.

The relationship between GIF and Better Cotton has been a longstanding topic of discussion, with a focus on governance structure, independence, and conflict resolution. A legal advisor previously presented various scenarios to the Governance Committee, leading to the approval of the third scenario. Implementation is now in progress, including the formation of a new committee and board structure. Given that the legal advisor is no longer with Better Cotton, it is essential to ensure proper follow-up.

Entity level controls, governance

Observation	Recommendation	Better Cotton Management's response
The Earthsight report raised allegations regarding cotton farming practices in Brazil. No specific issues were raised by Earthsight concerning Better Cotton, but only some members. Better Cotton collaborates with ABRAPA (local principles and standards setter) in Brazil to ensure alignment between local regulations and BC's international standards	Follow up on ABRAPA agreement and also potential risks of not signing.	Agreed.
The organization and especially finance department has undergone significant staff changes recently, leading to the frequent onboarding of new team members. While this brings fresh perspectives and potential for innovation, it also presents challenges in maintaining continuity and ensuring that financial processes are consistently applied. New staff may require time to fully integrate into the organization's policies and procedures, which could lead to temporary inefficiencies or an increased risk of unintentional errors.	To support a smooth transition and reduce disruptions, the organization should enhance onboarding, provide clear job definitions, and establish well-documented responsibilities for finance staff. Strengthening process documentation and internal controls will help preserve institutional knowledge. Additionally, reviewing workload distribution and staff engagement strategies can improve retention, while regular internal reviews will ensure consistency and accuracy in financial operations.	Agreed
It is yet to be confirmed whether the prior year adjustment on revenue has been communicated to the Financial Committee. Additionally, key matters related to the closing process, such as audit adjustments, findings, and the detailed auditor's report, may not have been fully communicated to the relevant stakeholders.	To reinforce entity-level controls and uphold strong governance practices, we recommend formal process for the key audit matters, detail report to council as well.	Agreed

IT General Controls I/III

Work Performed	Recommendation
<p>We had direct contact with Andy Wilson – Senior Manager, IT & Data</p> <p>Our main objectives was to manage a global IT review to ensure a quality, accuracy and consistency of the production of the financial data.</p> <p>We followed a work program based on the standards of the market (COBIT, CISA, ISO27001) which aims to cover 4 main topics :</p> <ul style="list-style-type: none"> • IT Organization • Change management • Access management • IT Process support & cybersecurity. 	<p>We concluded that</p> <ul style="list-style-type: none"> • the management of the IT systems is moderate regarding the design of the internal IT controls covered. • it has come to our understanding that certain procedures are currently in draft but not validated by the management. Therefore, we suggest to finalize and put in place the procedures. • We identified some improvements as was the case last year and understand things will evolve during the next fiscal year.

IT General Controls II/III

Observation	Recommendation
IT Organization : <ul style="list-style-type: none"> Well-structured IT Department, which allows to keep the control of the IT stakes. IT risk analysis are performed and monitored. An IT strategy and a high-level operating plan is defined. 	We recommend to ensure to have SLA in IT Providers' contract with Salesforce.
Change management : <ul style="list-style-type: none"> Changes are monitored, and the policy is formalized. 4 changes has been identified during the audited year : Upgrade Invoice Scan App / Conga migration / Certinia upgrade / Invoice Scan App to BCI Pakistan Tasks are well separated in case of changes : test done by product owner and transfer to deployment team to move this to the Production environment through the tool. 	

IT General Controls III/III

Observation	Recommendation
<p>Access management :</p> <ul style="list-style-type: none"> The access management process is formalized and monitored. The password configuration of the AZURE AD does not fulfil the best practices requirements. There is no SSO for Expensify but we understood that it is the plan. SSO for Salesforce was put in place during this year. 	<p>We recommend to:</p> <ul style="list-style-type: none"> Put SSO for EXPENSIFY. To enhance security, passwords should be at least 8 characters long and include at least three of the following elements: uppercase / lowercase / numbers / special characters Formalize a Physical access policy and control access to the IT equipment
<p>IT Process support & cybersecurity:</p> <ul style="list-style-type: none"> The service delivery process is managed as excepted (formalization is in progress) All employees are required to complete regular cyber awareness training. BCI conducted a regular phishing simulations to all staff. Several technologies are being set up in order to prevent threats. Business Continuity Plan/ Disaster Recovery Plan is in draft version. There is no backup management policy (except for Salesforce and Certinia – weekly backups). 	<p>We recommend to:</p> <ul style="list-style-type: none"> Test once a year the Disaster Recovery Plan Formalize a Backup management policy (for Azure AD, etc) Check what is covered by the cyber insurance Ensure that in case of IT bug the issue is solved within a reasonable timeframe

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