

## APSCA Code and Standards of Professional Conduct (Code) Guidance 2 – Use of Subcontractors and Partner organizations

**Issue:** Clarification regarding the use of Subcontractors and Partner organizations

**Applicable APSCA Code Section:** 4.1.3.1 reference to *Member Firm*

**Date Issued:** April 14, 2021

### Background

In some instances, *Member Firms* utilize non-employee resources to perform *Social Compliance Audits*. This is most commonly the case in countries where the *Member Firm* does not have a presence through their own organization. These cases typically involve arrangements with either individual *Member Auditors (Subcontractors)*; other *Member Firms*; or other entities (*Partner Organizations*) that employ or engage *Member Auditors*.

APSCA *Member Firm* designation is limited to the organization (including any identified, related entities) which were considered during the APSCA membership application process and subject to the related due diligence; and to whom membership was granted. As outlined in Section 2.8 of the APSCA By Laws, a *Member Firm* cannot assign, transfer, or extend their APSCA membership.

While it is acceptable for an *APSCA Member Firm* to have arrangements with *Subcontractors*; other *Member Firms*; or *Partner Organizations* for the completion of *Social Compliance Audits* on their behalf, such audits must be managed consistent with the key processes and protocols of the *Member Firm* that has the obligation to the *client* and in accordance with the *Code*.

Section 4.1.3.1 of the *Code* outlines the requirement for the use of a *Member Auditor's* APSCA number as follows:

A *CSCA* shall include reference to *CSCA* status and/or their APSCA *member* number only where the scope of work is a *Social Compliance Audit* and where the work is performed on behalf of a *Member Firm*.

For audits performed by either *Subcontractors*; other *Member Firms*; or *Partner Organizations*, the *Member Auditor* can only include their RA/CSCA status and/or their APSCA member number if the audit has been conducted consistent with the key processes and protocols of the identified *Member Firm*.

APSCA has, therefore developed this guidance to provide clarity on the acceptable use of *Subcontractors*; other *Member Firms*; and *Partner Organizations*.

### Guidance

In all cases, the *Member Firm takes responsibility for the overall process* for the effective execution (completion) of a *Social Compliance Audit*.

Regardless of the *Member Firm's* association with an individual *Member Auditor*, e.g. employee; *Subcontractor*; employee of another *Member Firm*; or employee or *Subcontractor* to a *Partner Organization*, the *critical elements of all Social Compliance Audits* performed by and on behalf of a *Member Firm* must be consistent with the key management processes and procedures considered in the evaluation of the *Member Firm's* APSCA application, which were subject to due diligence and the basis of which membership was granted.

To allow for or support the promotion of the activities of either a *Subcontractor* and/ or *Partner Organization* that would suggest the *Subcontractor* or *Partner Organization* is an APSCA *Member Firm* is a violation of the Code and Standards of Professional Conduct.

### Case Examples

While not exhaustive, the case examples presented below are intended to provide perspective on the application of Guidance 2.

#### Case 1

A Member Firm receives a request for an audit that the Member Firm cannot complete with an employee Member Auditor. The Member Firm has an arrangement with a non-employee Member Auditor, who is "in good standing" and an RA/CSCA. The Member Auditor, a Subcontractor, has been subject to competency evaluation by the Member Firm and has been provided training by the Member Firm on the related client and Member Firm protocols for the audit. The Member Auditor will complete the key steps in the audit consistent with the processes and protocols for the Member Firm. The Member Firm will engage with the client on all business elements related to the audit and manage the quality and integrity elements associated with the audit. The Member Auditor will be compensated directly by the Member Firm for the services related to the completion of the audit.

In this instance, the audit report can identify the Member Firm and the Member Auditor can include their APSCA Member Number on the audit report as the audit was completed by the Member Auditor consistent with the processes and protocols of the Member Firm - and the Member Firm was responsible for the audit.

## Case 2

A Member Firm 1 receives a request for an audit that the Member Firm 1 cannot complete with an employee Member Auditor. The Member Firm 1 has an arrangement with another Member Firm 2. A Member Auditor employed by Member Firm 2 has been subject to competency evaluation by Member Firm 1 and has been provided training by Member Firm 1 on the related client and Member Firm 1's protocols for the audit. Member Firm 2 will assign the identified Member Auditor to complete the audit on behalf of Member Firm 1. The Member Auditor will complete the key steps in the audit consistent with the processes and protocols for Member Firm 1. Member Firm 1 will engage with the client on all business elements related to the audit and takes responsibility for the overall process. Member Firm 1 will compensate Member Firm 2 for the services related to the completion of the audit.

In this instance, the audit report can identify the Member Firm 1 – and the Member Auditor can include their APSCA Member Number on the audit report as the audit was completed by the Member Auditor consistent with the processes and protocols of the Member Firm 1- and the Member Firm 1 was responsible for the audit.

## Case 3

A Member Firm receives a request for an audit that the Member Firm cannot complete with an employee Member Auditor. The Member Firm has an arrangement with a Partner Organization. A Member Auditor employed by the Partner Organization has been subject to competency evaluation by the Member Firm and has been provided training by the Member Firm on the related client and the Member Firm's protocols for the audit. The Partner Organization will assign the identified Member Auditor to complete the audit on behalf of the Member Firm. The Member Auditor will complete the key steps in the audit consistent with the processes and protocols for the Member Firm. The Member Firm will engage with the client on all business elements related to the audit and manage the quality and integrity elements associated with the audit. The Member Firm will compensate the Partner Organization for the services related to the completion of the audit.

In this instance, the audit report can identify the Member Firm and the Member Auditor can include their APSCA Member Number on the audit report as the audit was completed by the Member Auditor consistent with the processes and protocols of the Member Firm - and the Member Firm was responsible for the audit.

#### Case 4

A Member Firm receives a request for an audit that the Member Firm cannot complete with an employee Member Auditor. The Member Firm has an arrangement with a Partner Organization that has multiple Member Auditors. The Member Auditors employed by the Partner Organization have been subject to competency evaluation by the Member Firm and have been provided training by the Member Firm on the related client and the Member Firm's protocols for the audit. The Partner Organization will assign one of the evaluated/trained Member Auditors to complete the audit on behalf of the Member Firm. The assigned Member Auditor will complete the key steps in the audit consistent with the processes and protocols for the Member Firm. The Member Firm will engage with the client on all business elements related to the audit and manage the quality and integrity elements associated with the audit. The Member Firm will compensate the Partner Organization for the services of the assigned Member Auditor related to the completion of the audit.

In this instance, the audit report can identify the Member Firm and the assigned Member Auditor can include their APSCA Member Number on the audit report as the audit was completed by the Member Auditor consistent with the processes and protocols of the Member Firm - and the Member Firm was responsible for the audit.

#### Case 5

A Member Firm receives a request for an audit that the Member Firm cannot complete with an employee Member Auditor. The Member Firm has an arrangement with a non-employee Member Auditor, who is "in good standing" and an RA/CSCA. The Member Auditor – a Subcontractor – is experienced with execution of audits including audits for the client. The Member Auditor will complete the key steps in the audit consistent with the standard industry practices and previous engagements for the client. The Member Firm will engage with the client on all business elements related to the audit. The Member Auditor will be compensated directly by the Member Firm for the services related to the completion of the audit.

In this instance, there is no indication that the audit process was aligned with the key protocols and processes of the Member Firm. As a result, the audit report **cannot** identify the Member Firm and the Member Auditor **cannot** include their APSCA Member Number on the audit report as the audit was not completed by the Member Auditor consistent with the key processes and protocols of the Member Firm.

## Case 6

A Member Firm 1 receives a request for an audit that the Member Firm 1 cannot complete with an employee Member Auditor. The Member Firm 1 has an arrangement with another Member Firm 2. Member Firm 2 is familiar with the client program and has Member Auditors experienced with the program. Member Firm 2 assigns a Member Auditor to perform the audit consistent with Member Firm 2's protocols and processes. Member Firm 2 will take responsibility for all aspects of the audit and the assigned Member Auditor will complete the key steps in the audit consistent with the processes and protocols for Member Firm 2. Member Firm 1 will engage with the client on all business elements related to the audit. Member Firm 2 will manage the quality and integrity elements associated with the audit. Member Firm 1 will compensate Member Firm 2 for the services related to the completion of the audit.

In this instance, there is no indication that the audit process was aligned with the key protocols and processes of Member Firm 1 and Member Firm 2 has taken responsibility for the completion of all elements of the audit – including key processes related quality and integrity management. As a result, the audit report **cannot** identify the Member Firm 1 and Member Auditor **cannot** include their APSCA Member Number on the audit report as the audit was not completed by the Member Auditor consistent with the key processes and protocols of the Member Firm 1 - and the Member Firm 1 was not responsible for all key elements of the audit.

In this case, to the extent there was an agreement with the client that the audit was not going to be completed by Member Firm 1 but was going to be completed by Member Firm 2 – the audit report would logically be presented by Member Firm 2. As the audit would then have been completed consistent with the key processes and protocols of the Member Firm 2 – it would be the case that the Member Auditor can include their APSCA Member Number on the audit report as the audit was completed consistent with the key processes and protocols of the Member Firm 2 – and the Member Firm 2 was responsible for all key elements of the audit.

## Case 7

A Member Firm receives a request for an audit that the Member Firm cannot complete with an employee Member Auditor. The Member Firm has an arrangement with a Partner Organization that has multiple Member Auditors. Some – but not all – of the Member Auditors employed by the Partner Organization have been subject to competency evaluation by the Member Firm and have been provided training by the Member Firm on the related client and the Member Firm's protocols for the audit. The Partner Organization assigns a Member Auditor that has not been evaluated/trained by the Member Firm to complete the audit on behalf of the Member Firm. The assigned Member Auditor will complete the key steps in the audit based on standard practices but not necessarily consistent with the processes and protocols for the Member Firm. The Member Firm will engage with the client on all business elements related to the audit and manage the quality

and integrity elements associated with the audit. The Member Firm will compensate the Partner Organization for the services of the assigned Member Auditor related to the completion of the audit.

In this instance, the Member Firm did not assess the competency of the Member Auditor or the process utilized by the Partner Organization to assign the audit and there is no indication that the audit process was aligned with the key protocols and processes of the Member Firm. As a result, the audit report **cannot** identify the Member Firm and assigned Member Auditor **cannot** include their APSCA Member Number on the audit report as the audit was not completed by the Member Auditor consistent with the key processes and protocols of the Member Firm - and the Member Firm was not responsible for all key elements of the audit.

### Case 8

A Member Firm receives a request for an audit that the Member Firm cannot complete with an employee Member Auditor. The Member Firm has an arrangement with a Partner Organization. The Partner Organization has capacity to perform the audit and will take overall responsibility for all aspects of the audit process. The Member Firm has no interaction with the Member Auditor related to either the specific audit or broader considerations. Additionally, as a result of the arrangement with the Member Firm, the Partner Organization presents itself publicly as having the ability to conduct Social Compliance Audits that can be signed off by Member Auditors through the Member Firm.

In this instance, the Member Firm did not assess the competency of the auditor. Given that the Partner Organization will take responsibility for all aspects of the audit process – it is logical that the audit process will not be aligned with the key protocols and processes of the Member Firm. As a result, the audit report **cannot** identify the Member Firm and the Member Auditor **cannot** include their APSCA Member Number on the audit report as the audit was not completed by the Member Auditor consistent with the key processes and protocols of the Member Firm - and the Member Firm was not responsible for all key elements of the audit.

Additionally, in this instance, the fact that the Partner Organization – which has the arrangement with the Member Firm – is presenting themselves as having Member Firm capabilities is a violation of the Code by the Member Firm and the Member Firm could be subject to disciplinary action by APSCA.