

**Integrity risk assessment requirements for certification bodies
for FSC application review**

**Version 1-0 for field tests in Ukraine and China in 2020
(with FSC Ukraine comments)**

This document is to be used and tested within the field tests in Ukraine and China in 2020 and does not represent normative requirements for certification bodies.

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A Objective

This normative document is designed to implement additional requirements for the review of applicants for FSC certification, applying for the certification of forest management, chain of custody and project. These additional requirements are designed to prevent untrustworthy organizations from entering the FSC system, specifically those which present integrity risks to the scheme and do not show compliance with the Policy for the Association with FSC. The requirements provide a framework for certification bodies that clarifies which information shall be reviewed to identify integrity risks.

The implementation of these new requirements aims to strengthen the integrity of FSC supply chains by requiring certification bodies to perform a risk assessment of companies applying for certification.

Comment for field test in Ukraine 1: within the field test in Ukraine in 2020 we ask the participant CBs to apply the requirements to 1) applicants requesting charcoal in the scope of their certificates, 2) existing CHs with charcoal in their scope, 3) any other applicants (if project budget allows).

B Scope

This normative document is applied by certification bodies to organizations seeking FSC certification (applicants for initial certification and for transfer of certification) of forest management, chain of custody and projects.

Implementation of these requirements helps certification bodies to understand the environment and context in which the applicant operates, including main economic actors, company ownership and structure. By collecting and reviewing connections between key company personnel and known business relationships, the certification body will have a clearer picture of the applicant's history and any associated integrity risks that may lead to fraudulent activity in the FSC supply chain and breach of the Policy for the Association with FSC.

C Effective and validity dates

For field tests in Ukraine and China in 2020

D References

FSC-STD-20-001 V4-0 General Requirements for FSC Accredited Certification Bodies (specifically clauses 4.1 and 4.2)

FSC-POL-01-004 V2-0 Policy for the Association of Organizations with FSC

FSC-PRO-10-003 V1-0 Calculating financial penalty/compensation fee and processing evidence for blocked organizations

FSC-DIR-40-004 FSC Directive on Chain of Custody Certification

E Terms and definitions

Draft definitions for understanding the text of the document are marked with *

Blocked organization: A certificate holder or a former certificate holder that is blocked from the FSC Certification Scheme in response to false claims by: (1) the suspension of the Granted Rights, alternatively the termination of the License Agreement for the FSC Certification Scheme, and (2) the restriction from carrying out processes or activities that are included within the scope of their FSC certification.

Business relationship:* The connections that exist between all entities that engage in commerce. That includes the relationships between various stakeholders in any business network, such as those between employers and employees, employers and business partners, and all of the companies a business associates with.

Certification decision: granting, maintaining, renewing, expanding the scope of, reducing the scope of, suspending, reinstating, or withdrawing certification.

FSC Network Partners: The collective of all FSC Partners on a National level (formally called: National Initiatives) with a cooperation agreement with FSC. This includes FSC National Offices, FSC National Representatives and FSC National Focal Points.

Integrity risk:* A situation where the FSC Certification Scheme is exposed to a nonconformity and corruption that threatens the reliability and credibility of the scheme, due to insufficient compliance with the rules that are in force under or pursuant to the law. Fraud is an example of an integrity risk.

Official and reliable source:* A source whose authorship can be verified, and whose author is considered an expert on the topic at hand, including official sources approved by the government or someone in authority or databases thereof.

1. General requirements

- 1.1. The certification body shall conduct an integrity risk assessment of all applicants for FSC certification once it has received the application for FSC certification and prior to any other action or decision related to certification.
- 1.2. The certification body shall develop and apply an internal procedure on conducting integrity risk assessments and certification decision based on the results of the assessments.

Comment for field test in Ukraine 2: FSC Ukraine provides national guidance on integrity risk assessment in Annex 2.

- 1.3. The certification body shall store the collected information for at least 7 years and share it with FSC and ASI upon request.

2. Information collection and review

- 2.1. As a part of the integrity risk assessment the certification body shall collect and review, at minimum, the following information about the applicant to identify any integrity risks for the FSC system related to the application:
 - 2.1.1. Information about an applicant and its organizational structure, including business registration information, owners, major shareholders, etc.;
 - 2.1.2. Organizations with which the applicant has a business relationship;

Comment for field test in Ukraine 3: examples of information sources are included in Annex 2, Table 1, data category “Relationships”.

- 2.1.3. 5-year history of applicant’s FSC certification or applications for certification and where applicable reasons why the organization is still applying for FSC certification;
- 2.1.4. Dates of the establishment and re-establishment of the applicant organization;

Comment for field test in Ukraine 4: examples of information sources for identification of registration numbers, date of registration, owners, etc. are included in Annex 2, Table 1, data category “Registration Data”.

- 2.1.5. 5-year history of the applicant’s changes of names and commercial registration numbers;

Comment for field test in Ukraine 5: examples of information sources for identification of applicant’s name and commercial registration number changes are included in Annex 2, Table 1, data category “Registration Data History”.

2.1.6. 2-year history of any lawsuits associated with the applicant, including the ones related to economic activity, workers' rights and/or environment law violations;

Comment for field test in Ukraine 6: examples of information sources for all lawsuits related to physical persons or organizations are included in Annex 2, Table 1, data category "Lawsuits Data History".

2.1.7. Information provided by FSC network partners including national guidance on integrity risk assessment of FSC applications if available;

Comment for field test in Ukraine 7: FSC Ukraine provides national guidance on integrity risk assessment in Annex 2.

2.1.8. Information communicated by FSC International;

2.1.9. Any other available information that the certification body comes across that may represent an integrity risk (e.g. compliance and ethics statements on company website, news articles relating to company or key persons, sanctions lists, list of organizations blocked from FSC certification, list of organizations disassociated from FSC).

2.2. The certification body shall decide how to collect the information: e.g. through a questionnaire to be filled-in by an applicant, from official and reliable sources (public databases, public registers, etc.) or a combination of both.

2.3. The certification body shall corroborate the information provided by the applicant with information from official and reliable sources.

2.4. It is the decision of the certification body in which format to analyse the collected information (e.g. in a table, graphic, automated comparison of information, creating company profiles/"company cards" and comparing them) and how to take the decision on proceeding with certification (see clause 1.2).

2.5. The certification body shall stop the application process if any false statements or fraudulent information are discovered during the application process, and if applicant is blocked from certification according to information on info.fsc.org.

Annex 1. Guidance on information gathering (informative)

Examples of type of information to gather for the integrity risk assessment	Guidance on the information collection and analysis
1. Official name	<p>Official name in local language and English/transliterated.</p> <p>Comment for field test in Ukraine 8: For transliteration, if not officially provided by organization, please use requirements on: https://zakon.rada.gov.ua/laws/show/55-2010-n</p>
2. Name changes: No/Yes (include a name)	Important to know for finding out the history of the organization. The organization with a previous name might have been FSC certified by another CB, might have had court trials, etc.
3. Commercial registration number, and or taxpayer number, import/export enterprise codes, etc. (depending on the national context)	There might have been organizations earlier registered under the same commercial registration number. These organizations might have been FSC certified and blocked by FSC due to fraudulent behavior.
4. Were there other organizations under this registration number?	Same as above
5. Were they FSC certified? Why did they stop being FSC certified?	Same as above
6. Date organization was established	<p>Sometimes organizations are established (re-established) immediately after the termination of another (quite often) associated with them organization. It might be done in order to continue FSC trade and hide fraudulent activity.</p> <p>The CB may also compare the address of blocked organizations (as indicated in info.fsc.org) with the address of the applicant, especially if the date of established of the applicant is close to the date of application for FSC certification (as per item 8).</p>
7. Date FSC certification requested	Same as above. If the dates of establishing an organization and applying for FSC certification are too close it should trigger auditor's attention and actions on investigating the history of the organization and its key personnel.

Examples of type of information to gather for the integrity risk assessment	Guidance on the information collection and analysis
	<p>The CB may also compare the address of blocked organizations (as indicated in info.fsc.org) with the address of the applicant, especially if the date of established of the applicant is close to the date of application for FSC certification (as per item 8).</p>
<p>8. Previous FSC certificates: No/Yes (include certificate number)</p>	<p>If information is available in info.fsc.org, or CB databases, open sources or if provided by the client it will help to construct the history.</p> <p>The CB may also compare the address of blocked organizations (as indicated in info.fsc.org) with the address of the applicant, especially if the date of established of the applicant is close to the date of application for FSC certification (as per items 6 and 7).</p> <p>In case of previous certifications consider to identify the reason why the certification was dropped/terminated/blocked (please also see clause 10.2 b) of FSC-STD-20-001) and contact the previous CB for more information.</p>
<p>9. If there was a previous FSC certification, what was the previous CB?</p>	<p>It might be that affiliated organizations use different CBs in order to hide they are affiliated and make the verification process more complicated. If this pattern is identified, it shall trigger auditor's attention</p>
<p>10. Scope of current FSC Certificate (for trading partners of the applicant)</p> <ul style="list-style-type: none"> • Products • FSC claims 	<p>Indicating this for all FSC certified actors trading with the applicant will help to ensure that FSC certified organizations operate within the scope of their certificates and do not trade products outside their certification scope as FSC certified.</p>
<p>11. Geographical location (address) and e-mails</p> <ul style="list-style-type: none"> • for Office • for Factory • sites (for FSC certified trading partners of the applicant) 	<p>This will help to identify if independent on paper organizations in reality share the same offices or facilities or e-mails and therefore are affiliated somehow.</p>
<p>12. Names of owners, senior personnel and</p>	<p>Personnel may migrate from one company to another within the same supply chain or affiliated</p>

Examples of type of information to gather for the integrity risk assessment	Guidance on the information collection and analysis
FSC manager and their e-mails	organizations. If some of the organizations were previously FSC certified and then terminated, this may be a sign of hiding fraudulent activity.
13. Does the CH have any shares in other companies? (names)	<p>Important for understanding the relations and identifying potential beneficiaries who may own several companies withing the same supply chain.</p> <p>The auditor may compare the list of this companies with a list of organizations disassociated from FSC in order to address the requirement of the Policy for Association with FSC and a with list of suspended/terminated/blocked FSC certificate holders on info.fsc.org.</p>
14. Does the CH belong to any other company?	<p>Important for understanding the relations and identifying potential beneficiaries who may own several companies withing the same supply chain.</p> <p>The auditor may compare the list of this companies with a list of organizations disassociated from FSC in order to address the requirement of the Policy for Association with FSC and a with list of suspended/terminated/blocked FSC certificate holders on info.fsc.org.</p>
15. Have the organization, its owners, senior personnel or FSC manager been involved in any legal cases or formal allegations related to commercial or criminal issues, economic activity, workers' rights and/or environment law violations	<p>This will help to identify the general integrity risks including compliance with the Policy for Association with FSC.</p> <p>This information may be obtained from relevant national databases and as a self-declaration of an applicant.</p>

Annex 2. National Guidance on Integrity Risk Assessment (informative)

Information for integrity risk assessment in Ukraine can be found in public data sources and with a help of some commercial tools that may include free options. Examples of registers and tools for data collection are included in Table 1.

However, collection of information constitutes one of the steps of the integrity risk assessment. Certification bodies have to develop and apply an internal procedure on how exactly they will conduct integrity risk assessments and then take certification decisions (please see clause 1.2 of the procedure). For this purpose, FSC Ukraine developed a Risk Matrix and encourages certification bodies to apply it (please see Table 2).

The Risk Matrix includes a wider range of indicators for assessment than mentioned in the overall international requirements. The indicators are formed into impact groups. For each indicator there are descriptions of thresholds for identification of a relevant risk level considering the likelihood of the risk.

According to the Matrix the certification body can proceed with positive certification decisions/actions for an applicant or certificate holder (if within the field test existing certificate holders are assessed), when neglectable, low or acceptable risks are identified for each indicator. Risks that exceed borderline thresholds indicate an unacceptable integrity risk and request an action from a certification body (e.g. rejection of application, suspension/termination/blocking of a certificate holder).

A combination of different level of risks within one impact group may lead to overall exceeding of a borderline threshold and relevant actions by a certification body.

For the purpose of assessment, the next risk classification proposed to use according to likelihood.

Table 1. Examples of data sources for information collection in Ukraine

Register (database) or service name	URL	Type	Data categories						
			Registration data	Registration data history	Lawsuits	Relationships	Public Procurements	Fiscal data	Foreign economic activity
United State Register of Legal Entities, Individuals Entrepreneurs and Public Organisations of Ukraine	usr.minjust.gov.ua	Public data service	+	+/-		+			
State Fiscal Service of Ukraine Registers	cabinet.tax.gov.ua/registers	Public data service	+			+		+	
VAT Refund	mof.gov.ua/uk/vat-refund	Public data service							+
Unified State Register of Court Decisions	www.reyestr.court.gov.ua	Public data service			+	+			
List of court cases to be considered	court.gov.ua/assignments	Public data service			+	+			
Prozorro	prozorro.gov.ua	Public data service				+	+		
Stock market infrastructure development agency of Ukraine (SMIDA)	smida.gov.ua	Public data service	+	+/-		+			

Register (database) or service name	URL	Type	Data categories						
			Registration data	Registration data history	Lawsuits	Relationships	Public Procurements	Fiscal data	Foreign economic activity
State Enterprise "FIAC" services	www.ukrforest.com	Public data and paid services				+			+
Unified State Register of Declarations	public.nazk.gov.ua	Public data service				+			
Bihus Declarations	declarations.com.ua	Commercial free and paid services				+			
Database of importers and exporters of the State Enterprise "Goszovnishinform"	www.eximbase.com	Commercial paid service				+			+
ImportGenius	www.importgenius.com	Commercial free and paid services				+			+
Fordaq	www.fordaq.com	Commercial free and paid services				+			+
Flagma	flagma.com	Commercial free and paid services				+			+
YouControl	youcontrol.com.ua	Commercial free and paid services	+	+	+	+	+	+	+
Ring	ring.org.ua	Commercial free and paid services	+	+		+	+	+	+
Clarity Project	clarity-project.info	Volunteer project	+	+	+	+	+	+	+
Contr Agent	ca.ligazakon.net	Commercial paid service	+	+	+	+	+	+	+

Table 2. Integrity risk matrix for assessments in Ukraine

Indicator	Neglectable risk	Low risk	Acceptable risk	Borderline Threshold
Group “Structure of Business”				
Date FSC certification request	More than 1 year before submission of application	Less than 1 year before submission of application	Newly established company (1-2 months)	
Authorised capital	More than 10 thn. USD	Between 0,1 and 9,9 thn. USD	Not or less than 0,1 thn. USD	
Address of registration	Unique or same as address of owner’s registration	The address with multiple registrations of other businesses	Same address as where unreliable ¹ companies were registered	
Manager/Owner	No any other business or business is not related to wood products	Affiliated persons have the same business (wood products)	Manager/owner terminated unreliable companies	Manager/owner of unreliable companies
Founder				Manager/owner and founder of unreliable companies have direct relationships
Counterpart			Counterpart is trader without physical possession	Counterpart is an unreliable company

¹ Unreliable company – legal entity with sole proprietor with FSC suspended/terminated certificates or blocked due to false claims in FSC or other ISEAL schemes.

Indicator	Neglectable risk	Low risk	Acceptable risk	Borderline Threshold
Group "Production"				
Complexity of supply chains	Direct supply from the primary processor (FSC certified FMUs)	One intermediate company between the primary processor and applicant	Two and more intermediate company between the primary processor and applicant	
Facility and products	Own facility	Own and outsourcing facility	Outsourcing facility only	No physical possession
Conversion factor	Independent method of identification	Own method of identification	Not available	
Distance of supply		Distance between the biggest primary processor and facility is less than 100 km	Distance between the biggest primary processor and facility more than 100 km	

Indicator	Neglectable risk	Low risk	Acceptable risk	Borderline Threshold
Group "Responsibility"				
Transparency of business	Public report consists of verified accounting information	Public reports available	No public reports	
Ethical norms	Code of Ethics with internal audit	Ethical norms are publicly declared	No information	
Reputation (related to commercial or criminal issues, economic activity, workers' rights and/or environment law violations)		Low level of score in voluntary list of obligation practices of companies	Court decisions about non-compliance with obligations	Actual criminal court decisions and sanctions
Accounting		Accounting software is in use	Accounting software is not in use	
Transactions		Bank only	Bank and cash transactions	

Indicator	Neglectable risk	Low risk	Acceptable risk	Borderline Threshold
Group “FSC claims” (for the field applicable for assessment of existing certificate holders; not applicable for applicants)				
FSC certified products	Species Lists represent national species	Species List includes foreign species	Products description include foreign species and more than 20 product types	Products description include unstructured information of species and product types
FSC TM using		Incorrect use in social media and websites	Client packaging with labelling	
FSC products share			Sales without FSC claims	