UTZ CERTIFIED

10 steps to establishing an Internal Control System

A guide for cocoa producer groups and consultants
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The first version of this document was commissioned by UTZ CERTIFIED and developed by Ute Eisenlohr from the Institute for Market Ecology (IMO). It is a training document for producer groups required to set-up and manage an Internal Control System for certification as required by the UTZ CERTIFIED Code of Conduct. This document is an example of how to implement an Internal Control System so that all of the ICS requirements in the Code of Conduct are met.

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Legend

☑ Documents needed for the establishing the ICS (numbers refer to control points as in the Code of Conduct for Cocoa).
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1. Objectives of an ICS

Why establish an ICS?

The UTZ CERTIFIED Code of Conduct requires the establishment of an ICS so that the group can ensure that the whole organization and all of the producers are UTZ CERTIFIED compliant. In addition, the group must fulfill all of the expectations of the manufacturers and consumers of cocoa products. This allows the producer group to give confidence to the buyers through conformity to the UTZ CERTIFIED standard and consequently achieving better sales conditions.

During the ICS implementation process, it is important to emphasize the advantages that a quality management system can bring to the group. A well implemented and established system can improve the performance of management, production, change and marketing processes, so that the organization can achieve a better position and greater leverage in the market.

2. Identification of people responsible for the ICS

Who will run the ICS?

ICS Manager

Firstly the person responsible for the management of the ICS must be identified. His/her task is to organize the ICS and advise, motivate and train the staff. The person must demonstrate the following competences:

- A detailed knowledge of the UTZ CERTIFIED standards and its internal standard.
- A good knowledge of the ICS procedures and documents and the requirements of the external Certification body (CB).
- The ability to run a team and train other people.
- Efficiency in administrative tasks.
- Authority in management of documents and data.

Then **other people** must be identified who will work in the ICS and their tasks and skills defined.

- Internal inspectors (more details below).
- An approval and sanction manager of producers (or approval committee).
- The person who will raise awareness of the producers and organize the training.
The internal inspector: a key position in the ICS

The role and responsibilities of the internal inspector demands technical and human skills, an eye for detail and skills in administration of files.

The internal inspector is the ‘eyes and ears’ of the ICS. The success of the ICS will depend on the support and the resources made available to the internal inspector to accomplish his/her tasks.

Priority must be given to the continuous training of the inspector; it is much more effective if the training content is part theory and part practical.

Qualities required by the internal inspectors

- Mastery of the local language and the customs of the producers.
- Ability to read, write and produce reports in the favored language of the CB.
- Knowledge of local/regional agricultural systems.
- Technical and social know-how of principles and practices of UTZ CERTIFIED.
- Demonstrable competence in control procedures and internal standards.
- No conflicts of interest that would compromise the integrity of the role.
- Respected by the producers.

Approval personnel

Inspections and approvals must be done by different people. Approval and sanction decisions can be taken either by one person or a group of suitably qualified people (approval committee).

Qualities required by the approval personnel

- Good knowledge of the internal standards.
- To be respected by the producers and the staff.
- To have no conflicts of interest regarding the approval of the producers.
3. Carry out a risk assessment

What is the local context of the production? What constraints could have an influence on the production of cocoa and the effective functioning of the ICS?

The risk analysis is the basis from which all the internal rules of the ICS must be determined. For this the following people must be brought together; those responsible for the ICS, some ‘key producers’ (who know their region and cocoa production well) and if possible, some external consultants who know the Code of Conduct well. Their task is to identify the risks at the producer and group level in the following areas:

- Health and safety (117).
- Labor rights (119).
- The environment, including waste and pollution (121).
- Food safety (123).

A risk analysis should be done to evaluate the specific situation of the group and its members. The analysis should refer to the requirements of the Code of Conduct. It is important to determine measures to reduce identified risks and to plan corrective actions (for example producer training, and financial support for certain investments. The corrective actions must be documented in an ‘action plan’.

The list of identified risks covering the areas requested by the UTZ CERTIFIED Code of Conduct (117, 119, 121, 123).
A plan of action of corrective measures (118, 120, 122, 124).
4. Developing the internal standard

What are the “rules of the game”?

Having identified the risks, the internal standard is then developed. This document is a summary of the Code of Conduct which may also explain to the producers how to put the requirements into practice. (The internal standard only contains the parts of the code applicable in to the organization). It will cover the following points:

- Maintenance and optimization of soil fertility and structure.
- Crop protection.
- Storage of agro-chemicals.
- Measures covering harvest and post-harvest, product quality and hygiene issues.
- Health and safety for the workers/producers.
- Labor rights.
- Conservation and protection of the environment.

It is important that it is presented in a way that is easily understood by the producers (for example with drawings). It is also recommended to involve producers that are motivated in the development of the document. In every case, it is important that all of the producers approve the internal standard and they identify with it and it addresses all points.

- The internal standard (160).
- The list of authorized fertilizers (12).
- The list of authorized crop protection products (21) and the explanations concerning dangerous products and what to do in case of poisoning (56).
5. Planning the steps to certification

→ When should certain activities take place?

It is recommended that an action plan is drawn up with all of the measures to be put into place by the group and its members to ensure conformity to the UTZ CERTIFIED standard. It is an instrument to ensure better planning of activities and resources needed to achieve certification.

At group level, the plan must include:

- Training activities.
- Internal control activities.
- Monitoring activities.
- Organize resources (human, financial and equipment).

✓ A plan of action showing the steps to certification.

6. Information/Awareness and training

→ Which people are going to participate in the process of certification? What competencies are necessary?

6.1 Training of the ICS personnel

It is very important that the person responsible for the ICS and the person who will be training the producers have received training on the UTZ CERTIFIED Code of Conduct. It is important that they understand which aspects are applicable to the group.

The person running the ICS will carry out training of the internal inspectors and the manager responsible for approvals (and sanctions) of the producers (or the approval committee). If possible the training should be done with the help of an external consultant.

It is recommended to organize supervision and evaluation sessions of the trained personnel to ensure that they properly understand their tasks. It is important that they are well prepared for the role for which they have been entrusted and they are able to constantly improve their work.

The organization must ensure that all of its workers have access to equal training (without discrimination).

The personnel are trained in the following (156):

- Contents of the internal standard.
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- Internal controls.
- Internal approval, sanction and monitoring of corrective measures.
- Continuous supervision of the producers.
- Supervision of traceability.
- National labor regulations.

The CB must also ensure that the personnel are trained in first aid (124,150).

6.2 Training and registration of the producers
Before considering the training of the producers in any great depth, it is recommended that a meeting is convened which will:

- Present the internal standard to the producers and explain and discuss its contents.
- Identify the producers who are interested in the training and becoming certified.
- Identify interested and well motivated producers who can help to spread the word to other farmers in their village.

The interested producers are registered and given necessary training on the contents of the internal standard and good practices.

Initially, the person in charge of the training, visits each farm together with the farm producer. Each point of the internal standard is explained to the producer, and it is checked whether the criteria have been met. If any criteria is not met then the trainer explains why and what corrective measure needs to be applied. During this first visit, the contract between the producer and the group is explained and signed by the producer.

The ICS personnel identify what support is needed for the producers. After this initial visit, the training activities can begin.

6.3 Continuous training of the producers
Continuous training is essential. The objective is to deepen the knowledge of the producers of the controls of the internal standard so that they can take steps to put this knowledge into practice. It is important that the producers fully understand what must be done and which practices are not acceptable and have to be changed, and that they become aware of the advantages for them and for the group if they adhere to the controls.

It is important to fully define what training steps relate best to the organizations context, for example:

- External consultants directly training the producers.
- External consultant trains the field technicians. The technicians will have received some level of education and are capable of advising the producers in turn in good agricultural practices. They can also help the producers to maintain the documentation required.
• External consultants train the local lead farmers. They are the motivated and well educated producers and who are going regularly visit the producers of their village or from a particular zone.
• The person responsible for the ICS trains the field technicians/lead farmers.
• The organization develops field schools or the producers must follow the direct implementation of Good Agricultural Practices (maintenance and participation).

It is important that the technical methodologies chosen are designed for adult training and promote change among the producers.

**Contents of the training:**
The producer training must concentrate on identified risks. In every case the following aspects must be included (124):

- Good Agricultural Practices and long term conservation and improvement of soil fertility.
- Good harvest and post harvest practices.
- Product quality and food safety.
- Health and safety practices including first aid and emergency procedures.
- Waste management and environmental protection.
- Labor rights including child labor and informal workers.

Meetings must also be organized to inform the producers and their families on (146):

- Labor rights.
- Child labor and the importance of school.
- HIV/AIDS, personal and wound hygiene, nutrition, pesticides and any other health issues.
- Equal rights and opportunities for women.

The certified organization informs all producers on labor rights. In every community a producer is designated to monitor the adherence to labor rights and to register any complaints from the workers.

The training activities must be documented (participation and the contents of the course). The ICS must maintain the following lists for the employees and the producers:

- Official qualifications or certificates of attendance at the training (obligatory for the trainers, 126)
- Training files (15, 16, 53, 126)
- Copies of the list of attendees (126)
- Qualification of the chosen person responsible for the fertilizer and/or document proving the viability of the information (11)
- Diploma/certificate of the chosen person responsible for the crop protection products (15)
- Crop protection product application recommendations (21).
7. Developing the ICS documents

What are the ICS working tools?

Those responsible for the ICS, the technicians and lead farmers come together to develop necessary procedures and formats. If possible it is recommended to use the help of an external consultant.

It is very important that all the developed documents are well understood by all of the team and that they are well utilized. The documents must be developed in a way that «adds value» (Be aware that those documents which serve only «to show to the external inspectors that we have the records that they want», but which are not used correctly will only fill drawers!)

Document management

It must be clearly defined how the ICS documents are to be handled. All personnel who are developing and using them must be well trained. It must be decided:

- who is responsible for developing and approving different documents and records
- who must use/fill them
- who must file them and where it must be filed and for how long
- how it can be assured that the documents are updated in case of changes of the Code of Conduct and that expired documents are eliminated.

The following documents are necessary for documenting the functionalities of the ICS:

- Contract that includes the obligations of the producer and of the group, see example in the annex (162, 164).
- List of conflicts of interests or declarations (157).
- Map which gives an overview of the production units of the members (159).
- Inspection report, see example in annex (170, 171).
- List of members, see example in annex (173).
- Ways of recording the buying and selling of the certified products (invoices, receipts, lists (135).
- Procedures and documents for handling complaints (143-144).
8. Carrying out the internal and self-inspection

Do the producers and the group conform to the standard?

8.1 Internal inspection

It is important to determine how the internal inspections are carried out, who is going to decide if a producer fulfils the standard or not, how one is going to ensure that the necessary improvements are implemented by the producers and how it is ensured that the producers who do not respect the rules are sanctioned.

The internal inspection serves to verify that all the producers enlisted in the UTZ certification program respect the requirements of the internal standard. In fact, the internal inspection replaces an external inspection for each producer. This means the internal inspection is a formal verification, which is comprehensive and documented for the entire farm and its activities and which must be done by a neutral person.

The internal inspection must satisfy the following requirements:

- All the participating producers on the certification program must be inspected at least once a year (165).
- New participants must be inspected before they are approved for the program (168).

The internal inspection of all the producers must show understanding of the following activities:

- Field verification and farm management (understanding harvest and post-harvest practices).
- Storage verification (harvested product and inputs).
- Interview with the producer (or his/her representative) and with the workers.
- Verification of the available documentation.
- Finale session with the producer or his representative to:
  - Explain any non-conformities and determine the appropriate corrective measures.
  - Verify if the farmer needs support to put them into practice.
  - Sign the inspection report (or UTZ CERTIFIED internal check-list).

- The internal inspection report (or inspection sheet) contains the following information:
  - The name of the producer and the inspector.
  - The production site.
  - The date of the inspection.
  - The result of the inspection against the applicable production control points of the Code of Conduct.
  - The details of any non-conformities and the necessary corrective measures.
  - The status of the producer (which will be determined by either the manager or the committee in charge of approvals and sanctions).
• The inspection reports are given to the approval manager (or committee) who evaluates them and makes any decisions needed to be made.

• The internal inspections are done by those trained for the task.

All conflict of interests are to be avoided. Internal inspectors should not be close friends or relatives with the producers they inspect or approve.

The annual internal inspection serves to evaluate compliance at producer level. The internal inspection report is based on the Code of Conduct, but contains only those aspects directly applicable to the producers.

The aspects applicable at the group level must also be audited annually. This is done by carrying out a self-inspection.

### 8.2 Self-inspection

For each control point, compliance to the UTZ CERTIFIED Code of Conduct is evaluated with the help of the UTZ CERTIFIED check-list. This is done for the criteria applicable at the group and producer level. The summary of compliance of all of the producers is made based on the results of the internal inspection. For each non-conformity, necessary corrective measures are described in the inspection check-list.

- Internal inspection reports, see example annex (170,171).
- Annual self-inspection based on the full Code of Conduct (113). A checklist format is available at UTZ CERTIFIED.
- It is recommended to develop a summary for the external auditors of the all of the internal inspections indicating the results (approvals and sanctions). It can be in the form of a list of approved and sanctioned producers.
- It is also desirable for the ICS manager to develop a report of all activities completed annually. This document will not only be for presentation to the external auditors but also to serve as a solid base for continuous improvement of the quality system.
9. Taking the decision on producer compliance:

How to take the decision on compliance and what to do in case of any non-conformities?

The ICS must have procedures in place to take decisions on approvals of producers who conform to the standards and on sanctions imposed on producers where non-conformities were recognized.

It is recommended to define sanctions that can be imposed on the producers in the internal standard or in a separate document (list or catalogue of sanctions). This is however not mandatory. In any case, the sanctions must be clearly formulated and well known by the producers from the moment that they decide to participate in the certification program.

The sanction system must be aligned with the provisions laid down by the Code of Conduct:

- Certain points are obligatory and the producer or the group must fulfill these points before certification is gained.
- The obligatory control points are indicated in green in the Code of Conduct. From the first year to the fourth year the amount of obligatory points increases.
- Compliance is obtained if the group fulfills all of the obligatory control points and a defined number of additional control points per chapter (non obligatory points are year specific). The number of these additional control points is specified at the end of each chapter. It is impossible to compensate for a low score in one chapter with a high score in another.

### Example of sanctions:

<table>
<thead>
<tr>
<th>Non conformity</th>
<th>Sanction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer does not fulfill the obligatory criteria.</td>
<td>Producer may not be approved His produce is not sold as certified product Any corrections are checked by a new inspection visit</td>
</tr>
<tr>
<td>Undoubted fraud</td>
<td>The producer is excluded from the UTZ CERTIFIED group either permanently or for a certain period of time.</td>
</tr>
<tr>
<td>Intentional obstruction of the inspection</td>
<td></td>
</tr>
<tr>
<td>Refusal to inspect the contract, for example refusing to put into practice the internal standard requirements</td>
<td></td>
</tr>
</tbody>
</table>

The person responsible for producer approval (or the approval committee) takes the decision on compliance for each producer with the standard as the basis of the data recorded in the internal inspection reports. This decision must be clearly communicated to the producers. The
people responsible for the sales of the product must also be informed. The results of all of the producers are summarized in the producer list.

The ICS must determine how it is going to ensure that the producers put in place the necessary corrections in place and when they will be verified by the internal inspectors. It must also determine the mechanisms to ensure compliance throughout the year.

The decision (approval or sanction) and the subsequent implementation of the corrective measures are to be documented in the internal inspection reports.

- Catalogue or list of sanctions (not a mandatory document)
- Internal inspection reports, see example in annex (170,171).

10. Ensuring traceability and transparent management of payments and premiums

How to guarantee the separation of certified product and transparency?

A system of traceability must be put into place throughout the supply chain (production – transportation – sales) to ensure that certified product has not been mixed with non certified product. The traceability system allows the produce of the group to maintain its quality and its integrity over time.

The necessary separation of the certified cocoa is the group’s responsibility and must be ensured from harvest through to sales and in all the intermediary stages (transport, selection, grading, storage) (129, 132).

If the transport and post-harvest handling is out-sourced by the organization, it must check that the subcontractor is able to guarantee the traceability, the identification of the product and the separation of the non-certified and certified cocoa. The organization has a contract with the subcontractor to ensure that the UTZ CERTIFIED Code of Conduct is complied to (131).

- The traceability system must contain at least the following:
  - Physical separation and visual identification of the bags, during storage and transport of the certified product (129,132): The certified organization must visually identify the certified product. This can be on doors, labels, bags and pallets. The identification should preferably be the UTZ CERTIFIED logo. (131)
  - A management system for recording the following documents:
    - Buying and selling of the certified and non-certified cocoa.
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- The remaining stock of certified cocoa from the previous season.
- Sales announcements with the unique UTZ CERTIFIED number for each sale.
- Sales invoices stating the UTZ CERTIFIED status.
- An estimation of the volumes of cocoa from the certified and non-certified producers (134, 135, 171).

The group must be capable of demonstrating that the quantity leaving corresponds to the quantity entering (136).

It is recommended that the ICS develops a description of the product flow and of the traceability system so that the people responsible can identify any risks and constraints and thereafter able to exercise any necessary controls, (and to also explain the system when needed).

The person in charge of traceability must ensure that the system is functioning correctly and is able to fully explain the traceability system. The responsible person is fully aware of any news from UTZ CERTIFIED and announces sales to UTZ CERTIFIED (133). This person must be well trained in these tasks.

The certified organization clearly documents the revenues from cocoa and all of the payments to be made to the producers. The organization pays the producers in a way convenient for them. The price and the premium are clearly explained in a transparent way to the producers. The certified organization reports the spending of the premium in a transparent way to the producers (140-142).

- Documentation of the regular calibration of the weighing equipment and rate of humidity (51, 52).
- Records of the traceability system and the product flow (135)
- Records of production volumes (134, 135)
- Documentation of payments to producers, price and premiums (140-142)
- Documented data on the management of the premiums (decisions and usage) (142)