ISEAL Recommendations to IDH on Salary Matrix Verification Guidelines for third party verification

Learnings and recommendations from ten pilot audits facilitated by ISEAL

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Overview

There is growing momentum from supply chain actors to advance action towards delivering living wages for workers. IDH's Roadmap on Living Wage is designed to support action by companies and supply chain actors through a series of steps and tools that guide how businesses can move towards understanding and bridging wage gaps for workers. A key step of the Roadmap is ensuring that assessments of living wage gaps, through use of the Salary Matrix tool by producers or other upstream companies, are validated and verified by credible agencies to ensure transparency, alignment and agreement on the wage gap so all parties can focus efforts on bridging such gaps. To support this step, IDH has developed guidelines to support the verification of actual wages and living wage gap assessments that producers or others may undertake through the use of the IDH Salary Matrix.

Over the last year, ISEAL has been implementing a project, with support from IDH, that provides sustainability systems the opportunity to pilot the use of the Salary Matrix and the accompanying guidelines for verifying living wage gaps for third-party auditors with their certified producer organisations (Verification Guidelines). In 2021, ISEAL worked with seven different sustainability schemes to conduct ten field-based pilot audits in different country-sector combinations around the world. The objectives of these pilot audits were two-fold: to provide participating schemes the opportunity to test the use of the Salary Matrix and accompanying IDH Verification Guidelines with certified entities and to provide IDH learnings and recommendations for these pilots to improve these Roadmap's tools.

This document details the learnings and insights drawn from these pilot audits with a focus on recommendations to improve the IDH Verification Guidelines for third-party verification. The main information sources for this report are a) written feedback from participating auditors on a set of learning questions set by ISEAL and IDH; b) feedback calls with stakeholders participating in each pilot audit (producer, scheme owner and auditor); and c) a group discussion with the ten participating auditors in a workshop in mid-December 2021. Although the focus here is on the Guidelines developed for third-party auditors, we think the points and recommendations here could be applicable to first- and second-party verification of the Salary Matrix as well. The intended audience for this briefing note is IDH, schemes who participated in the ten pilots conducted last year and other voluntary sustainability schemes that would wish to advance action on wage verification.

Box 1: Schemes that participated in project pilot audits conducted in 2021

No.	Scheme	Product	Country	No.	Scheme	Product	Country
1.	Aquaculture Stewardship Council	Shrimp	Ecuador	6.	GLOBALG.A.P	Banana	Ecuador
2.	EHPEA	Flowers	Ethiopia	7.	kenya flower council	Flowers	Kenya
3.	FAIRTRADE	Banana	Colombia	8.	RAINFOREST ALLIANCE	Banana	Costa Rica
4.	FAIRTRADE	Flowers	Uganda	9.	RAINFOREST ALLIANCE	Tea	Kenya
5.	FAIRTRADE	Tea	Sri Lanka	10.		Cinnamon	Vietnam

1. 'Verification', 'Assessment' or 'Auditing'?

At the outset, clarity is needed across the entire Step 3 of the IDH Roadmap on Living Wages on the use of terms 'auditing' and 'verification'. This extends to how these terms are used in the Verification Guidelines as well. Although used synonymously, auditing and verification are different functions and mean different things. For example, Step 3 is termed 'verifying calculations of living wage gaps' but 3.1 explains 'Why is auditing important' and further down the text refers to 'Salary Matrix audits'. Given the very technical nature of this field (audit and assurance), we recommend a thorough calibration and uses the right terminology across this section of the website and in the Guidelines.

ISEAL Recommends:

1.1 IDH to provide a definition of verification in the Guidelines and clarify that the objective of step 3 is to verify the data and living wage gap calculation that any user of the Salary Matrix has arrived at by using the self-assessment. The audit then is the means to achieving this verification. As noted in the definitions of both 'audit' and 'verification' below, clarity is also needed on what the 'specific requirement' is that needs to be met and what the audit is verifying (on whether it has been met or not).

1.2 In the case of IDH's Step 3 of the Roadmap, it would be helpful to articulate a specific requirement or goal of the entire verification exercise. For eg: *The purpose of the exercise is to verify the accuracy and validity of the data that users have entered into the Salary Matrix tool so as to arrive at a specific living wage gap assessment for that producer / business at a given point in time. The outcome of the verification is a decision by the auditor (first-party, second-party or third party) on whether the verification has been 'positive' (meaning to be clarified) or negative (meaning to be clarified).* We make other observations on the outcome of the verification exercise later in the note.

Key definitions for reference (from ISEAL Assurance Code)

Assessment: The combined processes of audit, review and decision on a client's conformance with the requirements of a standard or of the assurance provider's conformance with requirements for assurance.

Assurance: Demonstrable evidence that specified requirements relating to a product, process, system, person or body are fulfilled. (adapted from ISO 17000)

Audit: A component of an assessment. A systematic, documented process for obtaining records, statements of fact or other relevant information and assessing them objectively to determine the extent to which specified requirements are fulfilled. (adapted from ISO 17000)

On-site assessment: An assessment occurring on the physical site of a client's operations.

Third-party assurance: Assurance activity that is performed by a person or body that is independent of the person or organization that provides the object of assurance and of user interests in that object. (adapted from ISO 17000)

Verification: Confirmation, through the provision of objective evidence, that specified requirements have been fulfilled. (adapted from ISO 9000)

2. Intended target group of the IDH Verification Guidelines for third-party verification

It is key to make sure that the language around Step 3 of the Roadmap and the IDH Verification Guidelines are crystal clear as to who they are intended for and how they should be used. Our experience with the schemes who participated in the pilots we facilitated, and our analysis of the current landscape of wage verification, makes clear that there are several organisations involved in wage verification and third-party wage verification with different roles, responsibilities and service-provision capabilities.

Excerpts from the IDH Verification Guidelines for third-party auditing says it is intended for 'third party auditors'. However, it also says that the guidelines are intended to be 'integrated into third-party audits performed by schemes that have a broader scope of compliance issues'. These statements indicate there are potentially two audiences for these guidelines – **third party auditors** (any auditor hired by an independent third party not associated with the auditee or with the company commission the audit) **and third-party schemes (**that may provide audit services as part of their sustainability standard or system).

In supply chains where the Salary Matrix tool is being rapidly adopted to assess wage gaps, the likely ideal scenario is for sustainability schemes with a strong footprint in those sectors to integrate Salary Matrix verification into their regular audit and verification activities. This situation presents the best prospects of responding to the uptake of the Salary Matrix tool but in a manner that does not add verification burden on producers who may already be certified or participants in such schemes. IDH also intends these guidelines to be adopted and integrated by schemes into their ongoing audit and verification activities with certified entities who may be adopting and using the Salary Matrix. Therefore, irrespective of who may find these Guidelines useful (such as individual auditors or auditing companies), the target audience for the third-party verification guidelines should be seen as third-party schemes and this should be reflected clearly and without ambiguity in the language of the guidelines and the Step 3 of the Roadmap.

1.2   Scope of the IDH guidelines on verification of a living wage gap

These guidelines are intended for third-party auditors. They are designed to guide successful verification of living wage gaps, including the completion of the *Base Report for auditors verifying living wage gaps,* which is expected to:

- be integrated into third-party audits performed by schemes that have a broader scope of social compliance issues.
- focus on the proper entry of accurate data into the Salary Matrix (or an IDH recognized equivalent tool).
- be performed only by auditors who have been trained by a trainer who has, themselves, successfully passed IDH's training of trainers' course and thereby received their trained auditor number (auditors will need to identify themselves in the base report with the number they received via their trainer).
- only be done if the living wage gap calculation performed by the company is not older than 6 months.
- to be used for the verification for on-site audits because interviews with workers are paramountGuidelines during the audit.

ISEAL Recommends:

2.1 Changing the title of the guidelines to clarify that it is intended for 'third-party schemes verifying living wage gaps' or 'third party auditors verifying living wage gaps through third-party schemes'. This will help make the target audience for these guidelines very clear.

2.2 It could also be stated that other organisations and individuals involved in wage verification and auditing may reference these guidelines and find them useful for work in this space.

3. Supporting integration with third party sustainability schemes

Step 3 of the IDH Roadmap on Living Wage and the Verification Guidelines state that these guidelines are meant to be integrated into third-party audits performed by schemes that have a broader scope of social compliance issues. In stating this, the assumption is that independent third-party schemes already have in place clear verification protocols and audit guidelines relating to assessment of worker wages and living wage gaps in certified entities. While this is certainly the case for advanced schemes that have mature wage assessment and improvement criteria in their standards, this is not the case with many newer third-party voluntary schemes who have the intention to progress towards living wage but have not yet reworked the standard and assurance system to deliver it. Put another way, the uptake of the Salary Matrix is proceeding much faster than the evolution of living wage standards (and accompanying verification protocols and procedures) for many leading sustainability schemes.

Given this situation, schemes are currently responding to the market demand for Salary Matrix verification through a variety of routes. Some are considering providing such verification as an add-on service to business clients and their respective sourcing producers who are using the Matrix. While this may be a short-term solution, it is still worthwhile in the long run for schemes to be working towards the integration of Salary Matrix verification into core scheme verification and audit procedures (in sectors where the SM is already a widely adopted tool) as this would maximise efficiency, credibility and minimise audit and verification burden for producers who are the primary users of the Salary Matrix. Despite the acknowledgement that this process will take time, it is important that schemes are supported in this journey.

For the standpoint of schemes, it is clear that prior to undertaking Salary Matrix verification, schemes and their CABs / auditors / assurance providers must have a thorough understanding of how they intend to undertake or integrate Salary Matrix verification into the regular audits. Of the ten pilot audits that ISEAL undertook last year, only one was integrated into an ongoing regular audit. All others took place as stand-alone pilot audits that were conducted outside the regular audit cycle of the concerned certified entity / producer. Therefore, ISEAL does not have much insight into how such integration should occur and what the steps are. However, we can safely assume that considerable dialogue and agreement would be required to ensure that scheme's auditors who are also supporting with the Salary Matrix verification, are clear about what to do at the field and how. For example, would the addition / integration of the Salary Matrix verification significantly add to audit time and resulting audit cost (to the producer)? Does the Salary Matrix verification require new checks or audit procedures that would not be otherwise undertaken? What preparations are needed from the producer for this and is there clear communication with the producer in advance to maximise audit efficiency? These are all questions schemes should be deliberating and deciding on in to ensure efficient and smooth integration of Salary Matrix verification into the regular audit and verification activities that schemes undertake.

To work with this situation, whilst retaining the principle that the IDH verification guidelines do not replace or supersede any scheme verification protocols where they do exist, ISEAL makes the following recommendations.

ISEAL Recommends:

3.1 Introducing a new section into the Verification Guidelines document (after the scope and before the guidelines section 1.3) titled 'How to use these Verification Guidelines'. The purpose of this section would be to clarify the following:

- The intent behind these guidelines is to support third party independent sustainability schemes with more effective verification of wage and wage gap data of their certified entities, specifically as entered into the IDH Salary Matrix by such entities.
- The guidelines are meant to guide, supplement, and support the scheme's own audit and verification protocol as it pertains to matters of worker wage assessment and verification. In doing so, the Salary Matrix verification is meant to be undertaken as an add-on or as integrated into ongoing business-as-usual audits that the scheme and their auditing agencies would undertake regularly.

3.2 If the scheme does have detailed protocols that guide CABs and auditors on how to verify and assess wage and wage gaps then it is the scheme's protocols that take precedence. For eg: if the scheme's audit protocol defines a methodology or recommended sample size for worker interviews that the auditor must undertake, then the auditor must follow this protocol. Examples of topics where the scheme's protocols should take precedence could include (but are not limited to) topics such as: Audit length and duration, sampling methodology and approach, desk verification protocols, audit communications, interactions with worker representatives and union bodies, audit governance such as regarding confidentiality, non-disclosure, audit decision and so on.

3.3 If the scheme does not have detailed protocols in place to guide CABs or its auditors but intends to participate in Step 3 of the Roadmap or provide Salary Matrix verification services then it will rely on these guidelines to a large extent. In such cases, the adoption of these guidelines is sufficient to report against the verification of the Salary Matrix but no other part of the scheme's work.

3.4 IDH should use this section of the Verification Guidelines to recommend clearly and categorically to participating schemes that they should have clarity on how they and their CABs / auditors are going to integrate Salary Matrix verification into existing audit procedures. Such clarity between all concerned parties should precede field-level verification of the Salary Matrix as if not, there is a real risk of wasting producer time and effort in the process.

4. Purpose and governance of the IDH Base Report

On the Roadmap website, IDH states that *'The IDH base report will serve as the physical evidence of all third-party verifications, independent of the scheme that performed the verification.'* Although IDH recommends that the generation of the Base Report is 'a basic minimum' output from the verification, considering the discussion above about the various modalities of verification that are likely to play out, the role of the Base Report needs clarification. We recommend that IDH adds a section to Step 3 website text that clarifies the intent of the Base Report, who produces it and following which types of verification models (first, second and third) and who has control over sharing the base report with others. This will go a long way in boosting producer confidence in the verification process and the confidentiality that they are entitled to over any audit or verification report generated on their entity / organisation / farm.

ISEAL recommends:

4.1 IDH consider developing and maintaining a repository for Salary Matrix Base Reports. This would provide a single source of access to Salary Matrix users who need to access their latest or older versions of the Base Report. Such a database or repository could also be developed and maintained in consultation / collaboration with schemes who are moving forward with Salary Matrix verification.

4.2 Additionally, IDH considers the prospect of the Base Report being converted into an online report that auditors fill and save online. This could have multiple advantages including ease of access to producers, auditors, third party sustainability systems and others that producers may wish to share the base report with. Access to the Base Report online will also provide a better record of the verification history of the Salary Matrix user, can support translation of its contents into multiple languages, can support better control over its use and sharing and ensure version control once base report templates are updated by IDH.

4.3 Converting the Base Report into an online tool and providing pre-set options for responses would greatly reduce the margin for auditor error while entry or potential confusion over interpretation of discretionary responses by auditors. Most of the entries in the Base Report can be made by auditors by simply choosing pre-selected options (from the ID of the Salary Matrix user which links and pre-fills their name, location, contact details; to linking the benchmark used directly to the IDH benchmark database). As most of the responses required from auditors are yes/no with options for open text, we think this would improve speed of generating the report, reduce errors and improve ability to analyse verification data at the back end (such as what percentage of Salary Matrix verifications had an intended outcome; the type of benchmark used for verification by different schemes, etc.).

4.4 IDH to have a discussion with third-party schemes who wish to participate in providing verification services to cross-check their level of comfort with the generation of the IDH Base Report as an 'add-on' document to their usual audits and the governance of such a document. Although IDH intends for the Base Report to serve as a documentation of Salary Matrix verification, when such verification takes place within the remit of an independent scheme, the scheme protocol governs all documentation of audit and verification procedures and outcomes. For example, all audit reports generated by audit providers or assurance bodies for a scheme are subject to strict non-disclosure and confidentiality agreements which limit the visibility of such documents by any third-party. Taking cognizance of this, a discussion with schemes on what the best way is to integrate the generation of a Base Report as part of its Roadmap would be useful. One solution, which could be explored if the Base Report goes online, is to add scheme-relevant disclaimers or checks and balances online for the auditors to abide by, linked to the scheme that they are representing / auditing for.

5. Clarifying the 'result' of the Salary Matrix verification exercise for third party verification

Linked to the question of the Base Report, but going beyond it, is the need for the Verification Guidelines and Step 3 of the IDH Roadmap to be clearer about the 'result' of the Salary Matrix verification exercise and audit. Currently, IDH states that '*At the closing of the verification of the living wage gap the third-party auditor shall answer the question: "Does the auditor attest that the data entered into the Salary Matrix for calculating total remuneration and living wage gaps has been verified as valid and accurate?"* with two possible results. A '*positive verification*' meaning the auditor has checked for and is satisfied with the validity and accuracy of data that has been entered into the Salary Matrix and a '*negative verification*' where one or more datapoints in the Salary Matrix are incorrect or data validity checks indicate inconsistencies with Salary Matrix data entries.

In the case of a third-party verification taking place as part of a regular audit cycle, schemes would have their own audit results which are linked to compliance with the scheme's Standard, principles or criteria or other requirements that scheme participants have to meet. In essence, the Salary Matrix verification exercise is adding a further 'audit decision' that auditors need to take and then record in the IDH Base Report. In this context, additional explanation and precautions are needed to ensure that the 'result' of the IDH Salary Matrix verification is not confused with the result of the scheme's own audit and that the interpretation of the Salary Matrix verification is clear to producers / Salary Matrix users and any others who may access the Base Report.

5.1 The Section 'Result Overview' of the Base Report where auditors are required to indicate a 'positive' or 'negative' verification outcome includes explanatory text on what the outcomes mean. Currently, such explanation is only provided in the Verification Guidelines which will be read by auditors but not by those who may read the Base Report. In providing text that explains how to interpret the Salary Matrix verification outcome, the Base Report should also make clear any provision to Salary Matrix users to rectify any errors. Such text should also clarify that the outcome of the Salary Matrix verification should not be confused with any outcome of the scheme's audit which will be recorded separately by the scheme in its own documents.

6. Requirement to have trade union or worker representative sign off on Base Report

Currently, the IDH Verification Guidelines for third-party auditors and the Base Report explicitly ask for a representative of a trade union or another worker representative to verify the living wage benchmark used and the living wage gap verified by the auditor. A signature is required by the representative at two points in the Base Report. Although the rationale behind this requirement is understandable, in that elected worker representatives should be made aware of the outcome of Salary Matrix verification and associated the living wage benchmark and living wage gap calculated, some auditors and producers did voice concerns with this requirement.

Auditors who participated in the pilot audits that ISEAL conducted raised the following points:

- One of the key responsibilities of an auditor is not to cause a stir or cause unrest. It is the responsibility of the scheme owner or employer or supply chain partners to provide workers or workers representatives with prior knowledge of what the applicable living wage benchmark is for their region before an audit takes place. It is not the place of the auditor to divulge this information that could potentially cause a stir during the period of the audit and lead to unrest (on account of the auditor) and doing so might also put auditors themselves at risk.
- In some countries (such as Sri Lanka and India), there are many trade unions and in addition worker representative bodies that are not trade unions. The auditor cannot seek validation from all of them and further, it is unclear what to do if some worker representatives sign-off and some don't.
- In many countries, worker unions are backed by political parties and in some other cases industrial relations between employers and workers unions might be strained. In such situations, requiring worker or union representatives to formally 'sign off' on a document that relates to wages or has implications for wage negotiations could put concerned representatives at risk of intimidation, harassment, bribery, discrimination or even harm.
- Auditors also questioned whether worker representatives had sufficient information to understand the process that went behind the Salary Matrix and its verification to confidently sign off on its outcome and the calculated wage gap. Requiring a signature without full knowledge of the methodology and process would be quite meaningless.
- ISEAL is aware of cases where a collective bargaining agreement (CBA)'s wage can sometimes be higher than the calculated living wage benchmark for the region and that would be applicable for that Salary Matrix user. In such cases, it is highly unlikely that trade union or worker representatives (who would undoubtedly have played a part in negotiating CBA wages) will sign off on a living wage benchmark or wage gap that is lower than the CBA wage.

All of the points raised above and valid concerns and merit consideration.

6.1 IDH reconsiders the explicit requirement for trade union or worker representatives to sign off on the Base Report and considers making this an 'aspirational' goal or 'optional' requirement for auditors who are undertaking third party verifications.

6.2 IDH adds clarity in the Verification Guidelines under Section 3 of this briefing note (see ISEAL recommendations in relation to supporting integration with schemes) that interactions with trade unions or worker representatives must all be undertaken as per protocols laid out by the scheme owner.

6.3 To compensate for the removal of a formal sign-off, the Guidelines could make the requirement around consultation with worker representatives or trade unions stronger. For eg, the Guidelines could require a minimum number of worker representatives who are consulted or that at least one representative from each major worker union body is consulted as part of the verification exercise. This will go a long way in improving the credibility and validity of the verification exercise than a formal signature on the Base Report.

6.4 Schemes participating in the Salary Matrix verification service and more generally those who are working towards living wages take clear steps towards awareness-raising with trade union and worker representatives on living wage benchmarks applicable in their regions. Such awareness-raising should be an integral part of the capacity-building work that schemes need to invest in as they implement living wage goals.

7. On-site audits, hybrid audits and desk-based completeness checks

Step 3 of the IDH Roadmap recognizes the difference between what it calls 'pre-audit Salary Matrix data completeness checks' and 'Salary Matrix audits'. The former is essentially an opportunity for organisations to have their Salary Matrix data and calculations reviewed by a trained auditor/reviewer either remotely or on-site. Such data checks, undertaken prior to field audits can save precious time of all parties and improve on-site audit efficiency. The Salary Matrix audits however are envisioned as field-based exercises as they mandate in-person worker interviews and field observations.

The covid pandemic opened up debates and dialogues around the scope and limits of remote and hybrid auditing models that sustainability standards and systems can adopt. In partnership with IDH, ISEAL has produced a range of guidance resources for schemes who are thinking through remote or hybrid auditing options. If certain independent third-party sustainability standards or schemes are moving to hybrid or remote auditing procedures, the inconsistently between such a scheme decision and the IDH Salary Matrix requirement that Salary Matrix verification has to take place on-site will need to be considered. At this point in time, IDH is not recommending remote audits for Salary Matrix living wage gap verification.

ISEAL recommends:

7.1 The IDH Verification Guidelines for third-party auditors cross-reference the IDH pre-audit desk-based completeness checks recommendations so schemes and their auditors are aware of these and can take advantage of this step as part of their audits and wage verification procedures.

7.2 Adding a section at the start of the IDH Verification Guidelines clarifying whether the verification audit was undertaken completely on-site or part on-site/ part virtually (i.e., a hybrid audit).

7.3 We recommend that if the third-party scheme is implementing a hybrid audit model, the IDH Verification Guidelines mark a sub-set of guidelines that are mandatory to be followed or checks to be undertaken on site. For example, the Verification Guidelines could highlight in bold those guidelines that should be adhered to be integrated into the field-visit or on-site component of the hybrid audit (For e.g.: a critical minimum of worker interviews, in-person verification of in-kind benefits).

8. Restructuring the Verification Guidelines document

It is our view that the IDH Verification Guidelines document could benefit from some restructuring to help auditors and readers navigate its contents better and mirror the stages of preparation and execution of an audit. The restructuring of the document could also consider the recommendations made previously but at a minimum we suggest the following:

ISEAL recommends:

8.1 Dividing the main body of the Verification Guidelines into three sections –

- *Guidelines for preparation in advance of a Salary Matrix audit*: this section would include recommendations in relation to ensuring auditors have access to the Salary Matrix data in advance; undertaking a pre-audit data completeness check remotely if feasible, considering questions of audit scope and sampling in light of scheme requirements and the 'level' at which the Salary Matrix has been filled out.
- *Guidelines for conducting an on-site Salary Matrix audit*: this section would include the bulk of the guidelines that are currently in section 1.3 of the current version of the Guidelines.
- *Guidelines for closure post a Salary Matrix audit*: this section would include a clear and detailed explanation of the outcome of the Salary Matrix audit and how it should be interpreted and any follow up points, further disclaimers or notes that readers of the base report should bear in mind.

8.2 Additionally, we recommend adding a 'glossary' section to the guidelines which is a ready reference for auditors on the key definitions of concepts they will need to be clear about during the audit.

9. Clarifying audit time and verification costs

As IDH and sustainability standards themselves think through Step 3 of the IDH Roadmap and advancing action on wage verification, it is important to not lose sight of audit and verification costs and burden that might fall on producers. Many sustainability standards require that primary producers or the certified entity bears the cost of the annual audit. While many schemes support producers financially to attain and maintain certification, any additional cost burden to producers by increasing the length (number of days) or frequency of audits needs to be done carefully.

For the ten pilot audits ISEAL conducted, auditors were contracted for a total of two days for preparation, document review, on-site audit and reporting. Most auditors felt this was adequate and some felt that, with better preparation both by auditor and producer and overall clarity of purpose, the Salary Matrix verification could be effectively done within a day. However, as the Salary Matrix gets integrated into sustainability schemes, its verification will become part of the usual audit cycle where auditors audit against the full set of requirements of the standard, and not just one topic such as wages or one element such as Salary Matrix data. In such a scenario,

devoting an entire data just for this exercise may not be feasible or affordable by producers. Therefore, at the end of the day, the verification also needs to establish what is 'good enough or 'robust enough' from a rigour and decision-making standpoint, also keeping in mind the risk of over-burdening producers in terms of audit time and cost. Such thinking needs to then be reflected in the Salary Matrix Verification 'outcomes' that IDH outlines and what criteria constitute a positive verification and what a negative verification.

Closing Note

Delivering more efficient and credible verification of wages and wage gaps is a shared goal between IDH, ISEAL and the growing number of sustainability systems committing to living wage goals. Currently, there are two processes moving in parallel in this space. One is the IDH Roadmap on Living Wages that sets an ambitious action plan for businesses to advance on living wages with a range of tools to support them in doing so. Step 3 of this Roadmap creates a specific role for sustainability schemes in supporting business action by independently verifying self-assessment of wages and wage gaps through the use of the Salary Matrix tool. The second track is where each third-party sustainability scheme is working with its own stakeholders and governance to make changes to its Standards and system requirements to meet living wage goals, nearly all of which will involve some form of wage and wage gap verification. However, the speed of implementation across both these tracks is very different and could lead to misalignment and a lost opportunity to collaborate better in this space.

ISEAL's project over the last year, working with IDH and leading schemes, has tried to understand the demands and requirements of both tracks and identify synergies between the two. This briefing note that documents some of the main learnings from our work through ten pilot audits is targeted as much at schemes as it is at IDH who wish to improve the Verification Guidelines for adoption by such schemes. Ultimately, this calls for a closer dialogue between IDH as the developers of the Salary Matrix and Verification Guidelines and leading sustainability schemes that are entering the arena as verification service providers. ISEAL believes that such dialogue should be prioritised before the further roll out of Step 3 and that it centrally is a dialogue between third party schemes and IDH, rather than one between audit providers (or auditors) and IDH. If the goal is for the Salary Matrix to receive the most credible form of verification, which is widely recognised as provided by third-party schemes, then such dialogue is the need of the hour. We hope the ideas and recommendations here serve as a useful stepping-stone to all those participating in this process.

Annex: Feedback on the IDH Salary Matrix tool and how to support effective verification

This section details the feedback received from participating parties that links directly to the Salary Matrix tool itself. Two aspects guide the feedback provided here:

- How can we improve the structure and utility of the Salary Matrix as a reliable self-assessment tool for primary producers and businesses to capture existing wage levels and calculate living wage gaps?
- How can we improve the structure of the Salary Matrix so as to make the verification exercise more efficient, reliable and robust?

Thus, the improvement of the Salary Matrix is also critically linked to helping Step 3 or more effective verification of the tool.

Need to significantly enhance producer capacity to understand and use the tool accurately

It is clear from the ten pilot audits that ISEAL conducted and independent feedback received by IDH that significantly more effort is needed in enhancing primary user capacity in understanding and using the Salary Matrix tool. In cases where users had a good and clear understanding of the tool, data entry and calculations were smooth and time-efficient, as was the resultant verification process. But in cases where users had poor understanding of the tool and its basic structure and concepts, data entry was incomplete or flawed making the verification a futile exercise. In such cases, auditors took on the role of Matrix trainer rather than verifier, which is not the role that they are meant to play.

The following challenges were specifically noted by producers:

- Comprehension of criteria, e.g., the meaning of every element, and how each one should be completed. Examples of how specific sections need to be filled out and what commons errors are that should be avoided will help.
- Understanding of the time-period for which data should be entered (for example the last financial year or the last annual year or the last harvest cycle etc)
- Understanding of job categories and how to categorise an existing workforce into these categories and then how to calculate and enter wage data for those workers. A common mistake made by many producers was calculating 'average wages' for certain types of tasks although this was not in reality what those workers actually earned (as their pay was probably a composite pay combining many tasks).
- Understanding and training on how to categorise seasonal workers, who are not on the payroll
- Understanding which living wage benchmark to apply, where these benchmarks were applicable and implications of applying an outdated benchmark value (this was the case is many pilots conducted)
- Valuation of in-kind benefits (this is explored in detail later)
- Understanding of which categories of workers and employees were to feature in the Salary Matrix and which not. In 3/10 pilot audits conducted, Salary Matrix users (estates) had omitted wage/salary data of middle and top level estate management staff. It was not clear to auditors whether this was permissible or not. A clear enumeration of the scope of 'workers' and 'employees' whose wage data needs to be entered into the Salary Matrix is important as it has implications for the resultant wage gap calculation.
- Challenges with the tool being completely online and resultant issues with internet connectivity, power outages and fears of losing data.

- Challenges in understanding data security and governance regarding the Salary Matrix, especially given all salary and wage information is confidential and potentially commercially sensitive.

The following additional challenges were noted by auditors:

- Prior visibility of the Salary Matrix data (or some version of it) is critical to improve the efficiency of the verification process. IDH has since added a functionality that allows Salary Matrix users to 'export' the Salary Matrix data (in full or part?) to third parties, this feature needs to be well-understood by users so that it can be shared with verifying auditors sufficiently in advance of the actual on-site verification.
- The challenges noted above on producers' ability to accurately value in-kind benefits and bonuses also has an implication for verification. The question of which in-kind benefits are valid to be considered benefits and therefore constitute a part of wage calculations changes from country to country (and sometime region to region). Some ability for the Salary Matrix tool to account for such jurisdictional idiosyncrasies, especially around in-kind benefits, would be helpful to both producers and auditors.

ISEAL Recommendations on the further development and improvement of the Salary Matrix:

- Clarify what and who the tool is meant for. For eg, clarify that the tool is primarily meant for large estates and hired labour settings (and not smallholder settings where employee and worker data is not formalized or captured). Also clarify which categories of workers within such enterprises the SALARY MATRIX tool is meant to address and what wage data needs to be captured and what not. For instance, if all wage data of all categories of employees and workers needs to entered into the tool then the tool needs to prompt when there are wage data gaps (as noted in the points made above) and what such data omissions mean for verification.
- Participants (users of the SM) should also be given the chance to complete a sample salary matrix a couple of times as a practice run before starting to use it formally and entering actual data. Such a 'practice run' should prompt for common errors made and give instructions and guidance on the concepts and categories of the Matrix.
- IDH should consider the language limitations of the Salary Matrix, which also, in effect, limits its accessibility to several parts of the world. One of the pilot audits that ISEAL ran was with a Vietnamese producer organisation that struggled to fill the Matrix on account of language barriers on the Matrix itself and accompanying training material.
- Although the Salary Matrix is gaining popularity amongst businesses, primary users and schemes, at the end of the day, using and maintaining it requires a significant effort on the part of primary producer organisations. As such, there is need to make the business case for produces to invest time and effort in using this tool rather than make it a *fait accompli* requirement that need to meet. This will support the long-term adoption of the Salary Matrix tool across all categories of stakeholders and help them understand how investing effort into using the tool with support their own efforts to advance worker wages.
- Finally, ISEAL is aware that IDH has set up a Working Group dedicated to the Salary Matrix development itself. This is a welcome step as it will allow inputs and feedback from a wide range of stakeholders, all of whom have a stake in the use and implication of the Salary Matrix Tool. ISEAL strongly recommends that the ToR of the Working Group be expanded to also look at verification of the Salary Matrix tool. As this briefing note has stated, the improvement of the Salary Matrix tool cannot be divorced from considerations of what would make it more verifiable (and potentially changes that could make verification more difficult). Ensuring that the Working Group has qualified auditors with on-the-ground experience of wage auditing and verification would also add value to the Working Group.

- Clarify the terms of confidentiality of the Salary Matrix data and the circumstances under which such data is shared by Salary Matrix users with verifying auditors to support the verification exercise. Consider having all trained auditors to sign an MOU or NDA (Non-Disclosure Agreement) as part of the 'auditor training and recognition' programme that IDH is running as part of Step 3.

By the closing of this publication, all these recommendations had been reviewed by IDH and have been taken into account for improving the tool. For example, a new e-learning site has been launched to support users of the tool addressing the aforementioned points as well as programming improvements have been implemented to improver user experience, speed and scalability.