



GUIDANCE DOCUMENT

For third-party auditors verifying living wage gaps

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1. General guidelines for third-party auditors

1.1 Introduction

Living wage projects, led by diverse groups of partners and stakeholders, are taking place all over the world. As focus on this important topic has continued to grow, so too has the need for uniformity around how living wage gaps are calculated. Consistent and aligned living wage gap analysis is crucial to the effectiveness and credibility of strategies to close gaps and achieve decent standards of living for workers. For buyers or traders that have supply chain partners all around the globe, alignment around both the living wage concept and how living wage gaps are measured is fundamental to building trust and the capacity to scale up. For producers and manufacturers that are asked to calculate the living wage gap at their production level, uniformity will ensure clarity and reduce inefficiencies. The IDH base report will serve as the physical evidence of all third-party verifications, independent of the scheme that performed the verification. These guidelines are created to give clarity to third-party schemes and their auditors.

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 paramount during the audit.

1.3 Guidelines during the audit.

1.3.1 General instructions

- i. Please indicate clearly in the base report if the verification of the living wage gap is executed as part of a full third-party audit or that the verification was executed as a standalone activity.
- ii. Please register clearly in the base report the number of permanent workers, the number of temporary workers that are directly employed and the number of temporary workers that are hired via an employment/hiring agency. (only when relevant)
- iii. When performing the audit, make sure that a) all reviewed records and data reflect the correct year for which the Salary Matrix was completed, and b) all interviewees also understand the appropriate reference year. (e.g., if a Salary Matrix was completed with data from 2019, and the audit is completed in 2020, the auditor should check records for 2019 and inform interviewees that their responses should be for 2019 rather than the current year).

- iv. Overtime is everything that is more than 48 hours a week. While the Salary Matrix tool aims to capture the real time worked, including extra time, time worked beyond the 48 hours is not counted toward a living wage. In other words, the tool was developed on the principle that workers should be able to achieve a living wage within a 48-hour period or less. Therefore, in order for the Salary Matrix to work properly, companies must track numbers of hours worked. Without those values, the tool will not serve its purpose. Auditors must check that the values entered in the tool come from real records of hour worked and are not based on theoretical work schedules, and cross check these during the interviews.
- v. Always check with the HR department if there are (temporary) workers that hired via an employment/hiring agency. Crosscheck this via interviews, preferable via a worker and/or union representative. If temporary workers are hired via a hiring agency, check if the company has registered this as a separate work category in the Salary Matrix.
- vi. When performing interviews to crosscheck the data entered in the Salary Matrix. Please focus on the job categories with the lowest paid wages.
- vii. Be sure to always include interviews with temporary workers, including (when relevant) workers that are hired via an employment/hiring agency. Identify the bottom-line fee that they receive and cross-check if this is reflected in the Salary Matrix.
- viii. Auditors must be aware of the legal minimum wage for the location being checked, as well as the valid collective bargaining agreement for the auditee's sector or industry (where applicable) and have an understanding of the local tax situation to make sure the gross values are taken into account.
- ix. For "In-kind benefits" the auditor can check the Living Wage Benchmark methodology available in the region for reference values on in-kind benefits. For in-kind benefits to be valued as part of total remuneration, the benefits must:
 - o be accepted by the workers as being valuable,
 - o directly reduce the cost of a basic but decent standard of living for a worker and her/his family,
 - o be regularly and reliably provided,
 - o be expected in advance,
 - o be directly provided to workers, rather than through legally mandated employer contributions to state run social services (e.g. employer tax contributions to national healthcare programs would not count), and
 - o be validated with the union and/or workers' representatives.
- x. Please be aware that in-kind benefits might not be reflected in pay slips, which typically represent cash payments only. If not reflected in pay slips, the auditor should look at other evidence for in-kind benefits.
- xi. The requirement for sampling of workers for the interviews are integrated in these guidelines and repeated in the base report. The auditor shall make sure that a minimum of 5 interviews with workers shall take place. There must be a sufficient representation of men and women (when relevant), as well as temporary and piece-rate workers. A minimum of 5 interviews should be performed but need to be scaled proportional to the size of the facility/farm if the auditor concludes that a minimum of 5 is not representative and/or does not adhere to sound social auditing protocols in a given circumstance.
- xii. Where one work area and/or one job category in a work area is checked, the auditor shall not use the same work area or job category for executing interviews.
- xiii. The auditor shall fill in the average living wage gap and the wage gap of the lowest paid worker on the frontpage of the base report.
- xiv. The values in each job category will be based on the median value for that given job category.
- xv. The results of the living wage gap verification should be checked by a union and/or worker representative at the end of the audit and when performed, this shall be reported in the base report. The auditors must explicitly state that (if applicable) the results have been checked with the trade union and who the trade union is.
- xvi. IDH suggest adding the HR department to the closing meeting on the part of presenting the results of the verification of the living wage gap.

1.3.2 Dealing with multiple locations

A Salary Matrix is in principle filled in for a unique facility and the workers within that facility. However, if a facility has multiple locations or is part of a multi-site/group, the verification on the ground will follow the sampling protocol and sample size of the third-party auditing body for visiting the unique facilities/sites. On those sampled sites, the auditor will verify the filled in Salary Matrix and verify the calculations of the living wage gap. Each unique facility that is visited will have its own base report. Companies that have a centralized payroll system, and have used the Salary Matrix for multiple facilities/sites, may have their living wage gap information verified by the auditor in one base report only if:

Companies that have a centralized payroll system, and have used the Salary Matrix for multiple facilities/sites, may have their living wage gap information verified by the auditor in one base report only if:

- The company can prove that the following variables in the central payroll system, associated with the data requirements in the Salary Matrix, are the same in all the included facilities and sites:
 - o average number of units worked for a given timeframe (no major variances in productivity)
 - o payment rates per units
 - o access to the same bonuses and in-kind benefits
 - o value of the bonus and in-kind benefit
 - o value of gross living wage benchmark for the region where they are located.If one of the above variables is different, the locations are out of scope and cannot be combined in one base report.

- In cases where the variables related to the central payroll system are the same for several locations, the auditor always has to visit the sites (based on sampled selection of sites that relate to the schemes sampling size) that are included in one base report to interview the workers on-site. The base report shall:
 - o list all sites that have been visited and where interviews with workers were performed.

1.3.3 Suggestions based on good practice:

List of materials to request from employers, or to ask employers to have on hand prior to the verification.	<ul style="list-style-type: none">• payroll records• employer’s portion of pay slips• policy on bonuses• records on bonus disbursements• piece-rates for all job categories that pay workers by piece• records on total pieces completed in the reference year and total units sold• policies on in-kind benefits• description of methods used to calculate in-kind benefit “costs to employer”• cost receipts for in-kind benefits• description of childcare benefits (if not provided in the Salary Matrix)
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	<ul style="list-style-type: none"> • Any other human resource records that the facility thinks would be useful • Example of employment contracts • CBA or a similar document which will give much more context information for the auditor to evaluate if payment breakdown is actually meeting 'legal' requirement • Example of a timesheet/time record (time in, time out) that would provide a clearer picture of the payment scheme.
Contextual information for auditors to have on hand	<ul style="list-style-type: none"> • A copy of the salary matrix • A copy of Living Wage Benchmark methodology available in the region for reference values on in-kind benefits • A map of the facility and nearest towns where workers live • A seasonal calendar or reference materials on the seasonality of production (and possibly worker migration)

1.3.4 Deviations found during the audit

During the audit, the auditor might find deviations within the data filled in the Salary Matrix. IDH does not interfere with the classification of deviations within individual schemes, but rather only identifies three types of findings per verification point:

Yes = the data entered in the Salary Matrix is correct

No = the data entered in the Salary Matrix is not correct

Partly = the data entered in the Salary Matrix is partly correct

For all the elements where the auditor found 'no' or 'partly', he/she can give a short justification in the base report.

Overall results of the Salary Matrix verification:

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?”

Positive Verification:

- When all sources of information to verify the validity of the data entered in the Salary Matrix have been checked for accuracy; and
- when all data has been entered correctly in the Salary Matrix

Negative Verification:

- If the sources of information utilized to verify the validity of the data do not match the entries in the Salary Matrix; or
- if one or more datapoints entered in the Salary Matrix are incorrect.

It is possible for the company to make corrections on the incorrect data (no or partly) during the time of the audit. If the auditor cannot close the deviation(s) by the end of the audit, the result would be a negative verification. There is no possibility to correct deviations after the audit is closed.

In case of a negative verification the auditor the auditor shall give explanation in the separate column in the base report

Follow-up frequency

As IDH does not want to interfere with the protocol of individual schemes, the follow-up frequency for verifying the living wage gap will follow the rules set by the scheme. It is also possible for the company to request the scheme for an earlier visit and/or a standalone audit that purely focusses on verifying the living wage gap and delivering the base report.

1.4 Verification guidelines for data filled in the Salary Matrix

This chapter provides guidelines on how an auditor can verify if the data points that are required to use the Salary Matrix are entered correctly.

I	General information jasdjfalkdjf	Guidelines
1.	Currency	Please check if the local currency is entered in the Salary Matrix correctly and reflects the currency used to pay employees.
2.	Area of production / production location	<p>Please cross check the GPS coordinates used by the facility.</p> <p>Here you find a link that can help you: https://www.ubergizmo.com/how-to/read-gps-coordinates/</p> <p>Check the area of the production site (given in hectares only) by asking for evidence. Make sure that data entered in the Salary Matrix is coming from the facility registered in the Salary Matrix, and that facility only.</p>
II	Product information	Guidelines
1.	Total annual production	Please interview the plant manager and crosscheck with the administration if the annual total production is entered correctly in the Salary Matrix.
2.	Number and length of production seasons	Should only be checked if it is different from typical number of seasons for this commodity
III	In-kind benefits (partly in this tab of the Salary Matrix and partly in tab 4, 'Payroll')	Guidelines

1	Company policies on in-kind benefits: food, transportation, housing, healthcare, Children's education, childcare or any other in-kind benefit.	<p>Please check the company's policies on in-kind benefits.</p> <p>Have the HR department explain the policies and method for calculating the "cost to employer" of maintaining these benefits. Verify cost receipts.</p> <p>Select two random workers (one male & one female) that receive those in-kind benefits and ask for their pay slips or any other type of evidence (may be verbal confirmation) to see how this is included and if the data is entered correctly in the Salary Matrix. Confirm that these benefits are regularly and reliably provided, and that they can be expected in advance.</p>
2.	Workers receive food as part of in-kind benefits.	<p>Interview a minimum of two workers that receive food benefits to check if the food provided by the employer is accepted by workers and reflects the information entered into the Salary Matrix.</p> <p>Crosscheck at the canteen/kitchen if the meal reflects local standards and is accepted by the workers as an actual meal. Check if the monthly itemized food cost, item cost and number of items are correctly reflected in the Salary Matrix.</p> <p>Confirm that the number of workers in the job category that receive the food benefit is entered into the Salary Matrix correctly. Note that sporadic provision of food may not be counted toward a living wage. Neither are snacks and water counted.</p> <p><i>Since the nutritious diet is meant to reflect an entire day, and most producers/employers provide workers one meal, it is sufficient for the auditor to check that what is being provided are, by local standards, actual meals (as opposed to packaged snacks for example) and that preparation is sanitary.</i></p>
3.	Workers receive transportation as in-kind benefit	<p>Check that the vehicles used for transportation are safe and provide transport to the town.</p> <p>Interview a minimum of two workers that use the transport to confirm that the transportation benefit is reliable, regular, safe, and used by most workers.</p> <p>Also verify the monthly transportation cost to the employer and that the costs have been entered correctly in the Salary Matrix.</p> <p>Check if the number of workers in the job category that receive the transportation benefit is entered in the Salary Matrix correctly.</p>

4.	Workers receive a contribution to children's education.	<p>Check which workers receive a contribution to their children's education and ask the HR department for evidence on how the contribution is made based on a sample of two workers.</p> <p>Check if the contribution costs, item cost and number of items are entered correctly in the Salary Matrix.</p> <p>Check if the number of workers in the job category that receive the children's education benefit is entered correctly in the Salary Matrix.</p>
5.	Workers receive housing as in-kind benefit.	<p>Visit the area of the housing provided by the employer and check if the housing is:</p> <ol style="list-style-type: none"> i. <u>Family housing</u>. The principle around family housing is two-fold. First is that workers should not be separated from their families for economic reasons, as this perpetuates poverty. The housing should therefore be able to accommodate workers' nuclear families according the quality, space, and privacy requirements laid out by international organizations (and brought together in the Anker Methodology – attached Annex/table on housing conditions). Second, if workers are migrating for work and have their families elsewhere, they still have housing costs at home. In this case, the housing cost to workers is not addressed through provision of worker housing. For these reasons, housing should not be valued as part of a living wage if workers are housed separate from their families and the housing will not allow for families to join workers if they so choose. A bachelor or bachelorette would be considered a nuclear family of 1. Multi-family housing might be Ok if it meets the quality, space, and privacy requirements. ii. Housing is of a durable structure that protects the workers against cold, damp, heat, rain, wind, floods, and pollution and has lighting, ventilation, and safe food storage. It shall be separated from animals. Local reference will help to decide if the space per person is enough. iii. Housing has decent sanitation. The definition of 'decent sanitation' is partially based on local references that help to determine if the toilet is a flush toilet, pit latrine or a shared toilet facility. iv. Housing has safe water. Local standards and references are used to determine whether safe water needs to be indoors, piped nearby the house or drawn from a nearby well. <p>Check if the monthly housing costs are entered correctly in the Salary Matrix.</p> <p>Check if the number of workers in the job category that receive housing is entered correctly in the Salary Matrix by crosschecking the number of houses available for workers and the number of workers making use of the housing.</p>

6.	Workers receive childcare.	<p>Check which workers receive childcare. If there is a childcare facility on-site, check that is appropriate, safe, and well supervised.</p> <p>Select two workers and ask for their pay slips to see how the childcare is reflected on the pay slips.</p> <p>Check if the childcare costs, item cost and number of items are entered correctly in the Salary Matrix.</p> <p>Check if the number of workers in the job category that receive the childcare benefit is entered correctly in the Salary Matrix.</p>
7.	Workers receive healthcare as in-kind benefit	<p>Check that the healthcare provided is not only related to work and that it is additional to the countries healthcare system (for example, it is not an amount paid in taxes by the employer into the national healthcare system).</p> <p>Interview a minimum of two workers to confirm the healthcare policy and check that the benefit is reliable, regular, and used by workers.</p> <p>Check if the healthcare cost, item cost and number of items are entered correctly in the Salary Matrix.</p> <p>Check if the number of workers in the job category that receive the healthcare benefit is entered correctly in the Salary Matrix.</p>
IV	Payroll	Guidelines
	<i>Job categories</i>	
1.	Job categories within company	<p>Please select and interview a minimum of two workers within the same job categories. Cross check their pay slips to see that their job category has the same name, they are paid the same way and receive the same in-kind benefits.</p> <p>When temporary workers are hired via an agency, please check if this is reflected within the Salary Matrix.</p>

		In the event that a worker's job category is not formally written but the job still meets the requirements of a job category as stated in the Salary Matrix (i.e., perform the same tasks, are paid in the same way, and receive the same in-kind benefits etc.) the company should still have the job-category entered in the SM.
2.	Currency	Please check if the local currency is entered in the Salary Matrix correctly and reflects the currency used to pay employees.
	<i>Number of workers</i>	
1.	Number of workers per work area	Please select one work area and crosscheck with payroll records to see if the total number of workers is entered correctly in the Salary Matrix. If not, select another work area to determine whether it is a single occurrence or reflects systemic data entry errors.
2.	Number of workers per job category	Please select one job category and crosscheck with payroll records to see if the number of workers is entered correctly in the Salary Matrix. If not, select another job category to determine whether it is a single occurrence or reflects systemic data entry errors.
3.	Gender of work force	Using the job category selected above, please check payroll records to determine if the correct number of men and women are entered in the Salary Matrix. If not, select another job category to determine whether it is a single occurrence or reflects systemic data entry errors
	<i>Wage per season</i>	
1.	Remuneration per job category on time unit (like hours, days, weeks, month) or piece rate.	Please sample at least two pay slips in one job category (one male & one female) to check if the time unit/piece rate is correctly described and the correct amount per time unit/piece rate is entered in the Salary Matrix. Always check the payment of the temporary workers.

		<p>Crosscheck the amount paid per unit by interviewing a temporary worker and a worker from the lowest paid job category. If paid via an agency, ask for evidence of the contract between the agency and the employer. The employer should know what the temporary workers are paid by the agency. It is possible that middlemen could be taking a fee from workers, without a facility's knowledge. It is important to check with workers to find out if this is the case and, if so, to make sure that the workers' take-home pay is entered into the Salary Matrix.</p> <p>For all employees paid by piece-rate, there should be a broad check that the piece amount is possible. For example. If there are 10 workers and they claim to make 10 boxes a day (100 boxes a day total) but the company sells only 50 boxes a day, this would be a red flag. This would have to be extrapolated to the month or year, allowing you to see if the data entered in the Salary Matrix is correct.</p>
2.	Time units worked (like hours, days, week, month) or average units completed per day (for men and women separately) in the job categories	<p>Interview a minimum of 4 workers (focus groups could work well too). The interviewees should be from different job categories, male and female (if applicable) and make sure that at least one job category is paid in piece rate (when applicable).</p> <p>Crosscheck at least 1 job category that the average units completed per day are correctly reflected in the Salary Matrix. Carry out a sample check from the production records for a given day and a given week and see if they are aligned with the data entered in the Salary Matrix.</p>
	Yearly bonuses	
1.	Company policy on bonuses: 13 th and/or 14 th month, performance/quality bonus, holiday bonuses and other bonuses.	<p>Please check the company's policy on bonuses and have the HR department explain the policy.</p> <p>Clarify if the bonus and bonus amount can be expected well in advance (i.e., at the start of the season).</p> <p>Select two random workers (one male & one female) that receive those bonuses and ask for their relevant payment slips. Check to see how the bonuses are included, and if the data is entered correctly in the Salary Matrix.</p>
2.	Amount and number of workers that have received bonuses	<p>Please review the company's policy and records on bonus disbursements.</p> <p>Sample one work area to determine if the number of workers receiving the bonus according to the records matches the number entered within the Salary Matrix.</p>

		<p>Next, sample one job category in a work area to determine if the bonus amounts are entered correctly.</p> <p>If records do not match the information entered within the Salary Matrix for either the selected work area or job category, select another to determine whether it is a single occurrence or reflects systemic data entry errors.</p>
VI.	Results	Guidelines
1.	The living wage benchmark methodology used is IDH recognized	Check if the selected living wage benchmark methodology is recognized by IDH on https://www.idhsustainabletrade.com/living-wage-platform/what-is-a-living-wage/ and that it is up-to-date.
2.	Gross living wage	Check if the wage entered is based on gross living wage. The gross living wage estimate is the gross pay required to ensure sufficient net take home pay to cover the cost of a decent standard of living. This is necessary because net living wage would not account for statutory deductions from pay (such as income taxes, social security taxes, and union fees) which will reduce the take home pay and money available for day-to-day expenses.