



Audit and Assessment Policy & Guidance

Audit and Assessment Policy & Guidance - Table of Contents

Introduction – page 3

Policy Documents

Risk-Based auditing– page 4

Supplier Audit Requirements – page 5-6

Small Supplier Audit Alternative – page 7

Assessment Process and Ratings – page 8

Consequences for Non-Compliance – page 9

Investigations and Site Visits – page 9

Guidance Documents

Risk-Based audit decision tree – page 10

Audit Requirement Steps – page 11

Approved Audit Programs – page 12

Audit Assessment process – page 13

Color rating guidance chart – page 14

Upgrading facility ratings – page 16



Audit and Assessment Policy & Guidance

Introduction

Walmart's expectation of compliance with our [Standards for Suppliers](#) extends throughout the supply chain. We use third-party social, safety and environmental compliance audits to help us evaluate our suppliers' overall compliance and to manage risk in the supply chain. These audits seek to monitor whether, among other things, workers are properly paid for the work they do, labor is voluntary, workers are not being exploited, facilities comply with employment age laws and standards, working hours are not excessive and are consistent with local laws and standards, and facilities meet health and safety laws and regulations.

Walmart reviews third-party facility audit reports suppliers submit and assigns each facility a color rating based on the third-party program's evaluation of the facility and Walmart's own review of the reports.



Audit and Assessment Policy & Guidance

Policy

Any facility producing product for resale for Walmart may be audited at any time. Nevertheless, we use a risk-based approach to auditing that focuses on disclosed facilities and allocates audit resources to those facilities that may pose a higher risk of non-compliance with Walmart's Standards for Suppliers or where non-compliance poses a higher risk to the company.

We place disclosed facilities into one of three country risk categories, and the risk category of a facility determines whether and when a facility must submit an audit to Walmart. The country risk categories reflect indicators of good governance in the country where the facility is located, and were derived using data compiled by the World Bank.

- **Category 1 – Lower Risk:** Facilities located in Category 1 countries will not be required to complete an audit on a regular schedule. Rather, each year Walmart will select a sample of facilities to receive an audit. Any facility in a Category 1 country may be selected as part of this annual sample.
- **Category 2 – Medium Risk:** Facilities in Category 2 countries will be required to complete an audit and follow-up audits as dictated by the supplier's chosen third-party audit program.
- **Category 3 – Higher Risk:** Same requirements as for Category 2 countries, plus a prequalification audit (discussed below) is required for new facilities.

A current list of countries organized by risk category is available [here](#). Walmart updates this list annually.

Walmart requires new facilities in Category 3 countries and new facilities producing Direct Import Merchandise (product where Walmart will serve as the importer of record) to receive an audit and obtain a Green or Yellow color rating prior to receiving orders to produce product for Walmart.

Walmart may from time to time ask suppliers with facilities producing certain kinds of products or in certain industries to obtain additional audits. Walmart reserves the right to examine other factors and to evolve its audit approach and requirements over time.

Additional Requirements for Bangladesh Facilities

Facilities within Walmart's disclosure scope located in Bangladesh are required to obtain an audit from either the Alliance for Bangladesh Worker Safety or the Bangladesh Accord on Fire and Building Safety in addition to meeting Walmart's standard third-party Responsible Sourcing audit requirements (and any additional audit requirements of other Walmart departments). Facilities already part of the Alliance or Accord processes will proceed to obtain an audit from a Walmart-approved third-party audit program if they are in good standing with the Alliance (i.e., no Alliance escalation criteria are met). Facilities that are not currently part of either the Alliance or Accord processes will be required to obtain all necessary Walmart audits (including a Walmart-approved third-party audit) and, if acceptable results are obtained, enroll with the Alliance and obtain a favorable result from the Alliance prior to production.



Audit and Assessment Policy & Guidance

Policy

It is the supplier's responsibility to take all necessary steps to submit an acceptable audit report to Walmart. This includes choosing an appropriate third-party audit program from the list of Walmart-approved programs, contacting the audit program chosen, arranging for the audit, paying for the audit, cooperating with the audit firm and/or program to complete the audit, sending the results to Walmart within the specified timelines, and working with the audit program and facility to remediate non-compliances and to resolve issues.

Responsibility 1: Choose an Appropriate Program

Walmart accepts audits from several third-party audit programs. Walmart may add or remove programs from its list of approved programs from time to time.

Walmart does not limit suppliers' ability to choose an appropriate third-party audit program from its list of approved programs; if the program is available to the supplier and facility, then the program's audits can be used for Walmart. There may be situations in the future in which Walmart will recommend certain audit programs for particular suppliers, industries, or in certain geographies as needs and strategies dictate. We will update this policy if we make such a determination.

Once a supplier chooses an audit program for a particular facility, it must continue with that program until all findings resulting in an Orange color rating have been remediated. Suppliers may switch audit programs for their Green-rated or Yellow-rated facilities. Additional information on color ratings is set forth in this policy.

Responsibility 2: Arrange, Pay For, Obtain and Cooperate in the Audit

The supplier is responsible for contacting the third-party audit program of its choosing, joining the program if necessary, paying any necessary fees, and making its facility available for the audit under the terms outlined by the program.

Walmart expects suppliers whose facilities are subject to audit to participate fully in the audit program chosen, to obtain all necessary preliminary and follow-up inspections and audits in order to maintain good standing with the program, to follow the program's prescribed corrective action or remediation plan, and to participate in training programs. Failure to stay in good standing with the chosen audit program may result in the facility becoming ineligible for Walmart production.



Audit and Assessment Policy & Guidance

Policy

Responsibility 3: Submit the Audit Report to Walmart

Suppliers are responsible for submitting a valid audit report to Walmart within the timelines and according to the methods specified by Walmart. Walmart is not responsible for reminding suppliers that audits are due; suppliers are solely responsible for submitting a valid audit report in a timely manner. See audit and assessment guidance for more details.

Responsibility 4: Remediate and Continuously Improve

All suppliers using a facility are expected to work with the facility to remediate all non-compliances identified in the audit report in the manner specified by the audit program chosen. In addition to this audit program-driven remediation, Walmart expects suppliers to prioritize the remediation of higher-risk findings that would lead to the facility receiving an Orange color rating.



Audit and Assessment Policy & Guidance

Policy

Small Supplier Audit Alternative

In order to allocate resources toward higher-risk facilities, Walmart affords an alternative option to a traditional third-party audit for certain disclosed facilities. Facility disclosure is still required even where an alternative approach is provided. When an audit is normally required, small suppliers have a choice to submit audits from approved audit programs or participate in the [approved capacity building program](#).

Suppliers meet the definition of Small Supplier if:

- the supplier's global sales revenue is under \$2.5 million per year; or
- the supplier's total global sales revenue to Wal-Mart Stores, Inc. is under \$100,000 per year.

Once a supplier's business grows above the defined level, they will be required to be managed under the normal Responsible Sourcing audit program.

Walmart reserves the right to grant or withdraw exemptions to audits at its discretion.



Audit and Assessment Policy & Guidance

Policy

Assessment Process and Ratings

Walmart reviews third-party audit reports suppliers submit for the facility and assigns the facility a color rating based on the third-party program's evaluation of the facility and Walmart's own review of the report. The most common facility ratings are:

- **Green:** Green ratings identify facilities whose audits indicate a high level of compliance with the Standards.
- **Yellow:** Yellow ratings identify facilities whose audits indicate general compliance with the Standards.
- **Orange:** Orange ratings identify facilities whose audits indicate more serious violations of the Standards, but from which Walmart will continue to allow sourcing while the violations are remediated. Three consecutive Orange ratings may result in a Red rating, regardless of whether the facility remains in good standing with the audit program chosen. Additionally, suppliers who submit an audit report that results in an Orange rating must continue to use the same audit program until the facility improves its rating to Green or Yellow.
- **Red:** Red ratings identify facilities for which Responsible Sourcing has discovered violations of a nature that may make it appropriate to temporarily or permanently terminate the facility's ability to produce product for Walmart. Red ratings may also be used to identify facilities whose third-party program seal or certification has been revoked, and for facilities that may have been terminated by a third-party audit program. If a facility is assessed a Red rating, its ability to produce product for Walmart may be ended indefinitely, its production halted and/or its product refused.

Each audit report submitted will correspond with an initial "base" color rating for the facility, which is based on the audit rating generated by and/or findings made by the audit program. Certain audit program ratings will correspond with Walmart colors—Green, Yellow, Orange, or Red.

Walmart assessors will then review the report's findings to look for higher-risk issues that may change the facility's color rating to Orange or Red and that may be escalated for possible investigation or supplier engagement. Where such higher-risk issues are identified, the final facility rating may be Orange or Red even if the "base" color rating for the facility derived from the audit program's evaluation of the facility was Green or Yellow.

The facility ratings are provided to all suppliers using the facility.



Audit and Assessment Policy & Guidance

Policy

Consequences for Non-Compliance

Facility assessments may cause suppliers to lose the ability to use a facility to produce merchandise for Walmart. Typically, where a facility receives a Red rating or three consecutive Orange ratings, the supplier's ability to use the facility will be suspended or terminated. Walmart reserves the right to suspend, reduce, or terminate a supplier's ability to use a facility even absent a Red rating or three consecutive Orange ratings.

Suppliers may be issued consequences—including a supplier “strike” and/or reduction, suspension, or termination of business—where the supplier is associated with a facility that receives a Red rating, for the supplier's own conduct, or where the facility's conduct is reflective of the supplier's overall compliance with the Standards for Suppliers. Three Strikes in a two-year period will typically result in a suspension or termination of the supplier's business relationship with Walmart.

Suppliers and facilities may also receive consequences for failing to comply with the requirements outlined in this policy, including but not limited to failing to obtain and provide a valid audit for a facility where an audit is required and failing to make a facility available for inspection. Failure to obtain and provide an audit where an audit is required will also subject the facility to inactivation in the Walmart system, making the facility ineligible for production. Failure to cooperate in an audit, inspection, or investigation may lead to consequences up to and including termination of supplier, facility, or both.

Investigations and Site Visits

In addition to monitoring suppliers' facilities through audits, Walmart investigates certain allegations that suppliers and their facilities have engaged in conduct that may violate Walmart's Standards for Suppliers. Responsible Sourcing receives allegations through several sources, including escalations from audit programs, the Walmart Ethics hotline and inbox, anonymous tips, Walmart internal business partners, media and NGO reports, and other sources. Substantiated findings may result in consequences for suppliers, facilities, or both, up to and including termination of business with Walmart and its subsidiaries globally. Suppliers must cooperate and make facilities available, in accordance with the requirements set out in an applicable supplier agreement and/or Walmart's Standards for Suppliers.

Walmart or a designated representative may investigate or visit any facility producing product for Walmart at any time. The risk-based approach to auditing described above does not apply to investigations.

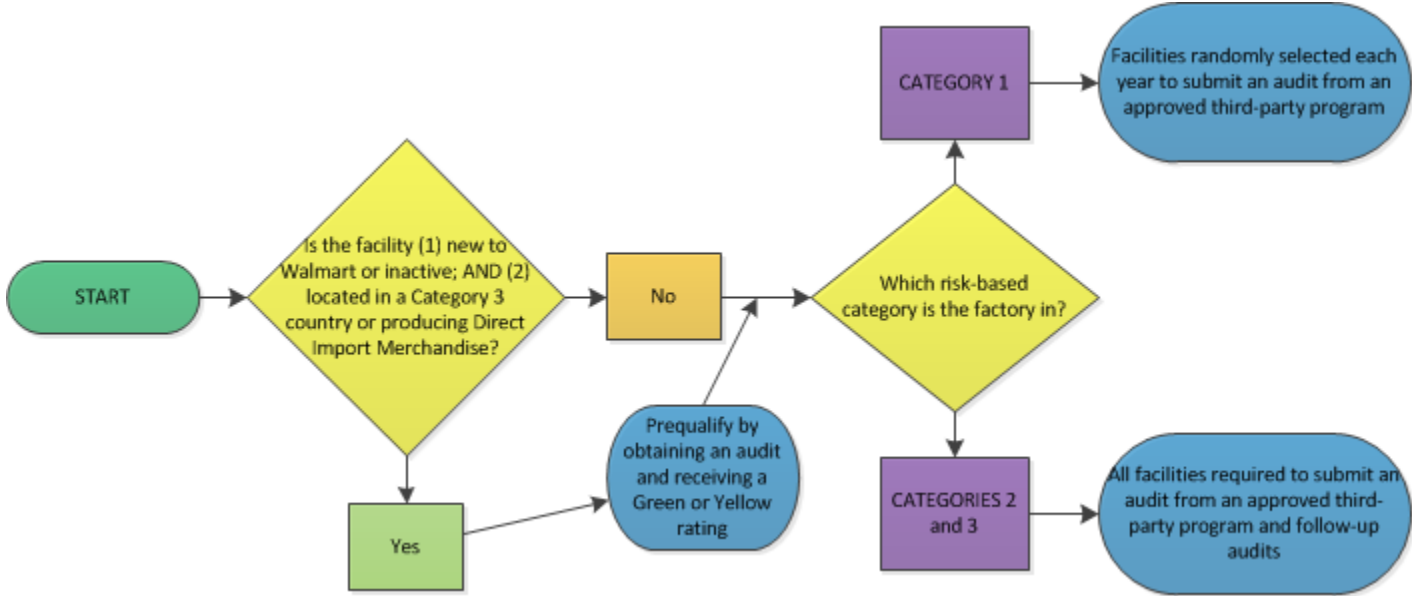


Audit and Assessment Policy & Guidance

Guidance – Risk-based audit decision tree

We place disclosed facilities into one of three country risk categories, and the risk category of a facility determines whether and when a facility must submit an audit to Walmart. The country risk categories reflect indicators of good governance in the country where the facility is located, and were derived using data compiled by the World Bank.

A current list of countries organized by risk category is available [here](#).



*Facilities located in Bangladesh must comply with additional onboarding and prequalification requirements as set forth by policy



Audit and Assessment Policy & Guidance

Guidance – Audit requirement steps

It is the supplier's responsibility to take all necessary steps to submit an acceptable audit report to Walmart. This includes choosing an appropriate third-party audit program from the list of Walmart-approved programs, contacting the audit program chosen, arranging for the audit, paying for the audit, cooperating with the audit firm and/or program to complete the audit, sending the results to Walmart within the specified timelines, and working with the audit program to resolve issues.

- Step 1:** Choose an approved audit program
- Step 2:** Complete a facility audit
- Step 3:** Submit your audit report
- Step 4:** Link Walmart in the audit program platform

A detailed 1-page guidance document can be found at [this link](#)

Reasons a Factory Audit Report May Be Rejected

- Audit type not acceptable
- Incomplete / unclear report
- Audit conducted is expired or outside validity period
- Facility information in the report does not match with Walmart records
- Not a Walmart-approved audit program
- Not a Walmart-approved audit firm (SMETA only)
- Facility is not eligible for Walmart production
- Valid audit already on file
- Facility is in Red status



Audit and Assessment Policy & Guidance

Guidance – Approved audit programs

Audits from the following programs are available for Walmart suppliers to use to satisfy their Responsible Sourcing audit obligations:

- [Best Aquaculture Practices \(BAP\)](#)
- [amfori Business Social Compliance Initiative \(BSCI\)](#)
- [Better Work](#)
- [Responsible Business Alliance \(RBA\)](#)
- [ICTI Ethical Toy Program \(IETP\)](#)
- [SEDEX Members Ethical Trade Audit \(SMETA\)](#)
- [Social Accountability International \(SA8000\)](#)
- [Worldwide Responsible Accredited Production \(WRAP\)](#)
- [South Africa Agriculture - Sustainability Initiative of South Africa \(SIZA\)](#)

Audits are not mandatory for small suppliers, but we do require participation in a capacity building program.

- [Small Supplier Program administered through Intertek](#)



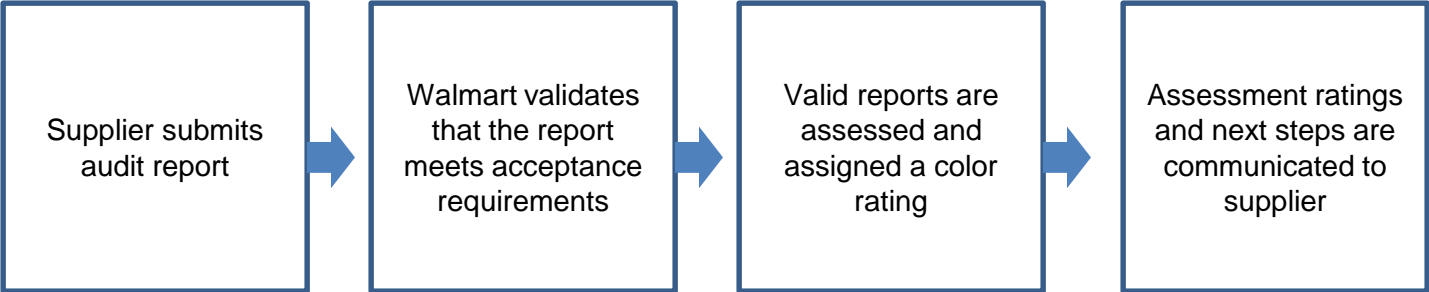
Audit and Assessment Policy & Guidance

Guidance – Audit assessment process

Walmart reviews third-party audit reports suppliers submit for the facility and assigns the facility a color rating based on the third-party program's evaluation of the facility and Walmart's own review of the report.



Audit and Assessment Policy & Guidance



Guidance – Color rating guidance chart

Color Ratings: Walmart reviews third-party audit reports that suppliers submit and assigns the facility a color rating based on a combination of the third-party program’s evaluation and Walmart’s own evaluation. It is the supplier’s responsibility to understand and comply with color ratings



Audit and Assessment Policy & Guidance



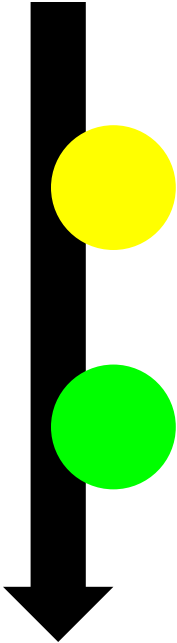
Rating Defined	Is production allowed?	Rating Notes
<p>Red ratings identify facilities for which Responsible Sourcing has discovered violations of a nature that may make it appropriate to temporarily or permanently terminate the facility’s ability to produce product for Walmart.</p> <p>Red ratings may also be used to identify facilities whose third-party program seal or certification has been revoked, and for facilities that may have been terminated by a third-party audit program.</p>	<p>A Red rating typically terminates the facility’s ability to produce merchandise for resale for Walmart.</p>	<p>Walmart will provide instructions to suppliers associated with Red-rated facilities outlining the terms of production and shipment associated with the Red rating.</p> <p>Contact your Walmart Responsible Sourcing manager to understand requirements to activate a Red facility.</p>
<p>Orange ratings identify facilities whose audits indicate more serious violations of the Standards.</p>	<p>Where pre-qualification is required, an Orange rating will not be sufficient to allow production to begin.</p> <p>Only facilities in “active status” are approved for production.</p> <p>Facilities in “active status” that receive an Orange rating typically may continue to produce product until the audit expiration date while violations are remediated. Walmart will notify suppliers if this is not the case.</p>	<p>Three consecutive Orange ratings may result in a Red rating, regardless of whether the facility remains in good standing with the audit program chosen.</p> <p>Suppliers who submit an audit report that results in an Orange rating must continue to use the same audit program until the facility improves its rating to Green or Yellow.</p> <p>Suppliers are expected to prioritize the remediation of higher-risk findings that led to the facility receiving an Orange rating.</p>

Guidance – Color rating guidance chart

Color Ratings: Walmart reviews third-party audit reports that suppliers submit and assigns the facility a color rating based on a combination of the third-party program’s evaluation and Walmart’s own evaluation. It is the supplier’s responsibility to understand and comply with color ratings



Audit and Assessment Policy & Guidance



Rating Defined	Is production allowed?	Rating Notes
Yellow ratings identify facilities whose audits indicate general compliance with the Standards.	<p>Only facilities in “active status” are approved for production.</p> <p>Yellow facilities in “active status” are approved for production until the audit expiration date while violations are remediated.</p>	
Green ratings identify facilities whose audits indicate a high level of compliance with the Standards.	<p>Only facilities in “active status” are approved for production.</p> <p>Green facilities in “active status” are approved for production until the audit expiration date while violations are remediated.</p>	

Guidance – submitting information for possible upgrade of your facility rating

Remediation is the formal process of improving the facility's compliance. Normally, a facility's rating will be upgraded only after an ordinary full-scope audit in the ordinary course.

Remediation which has taken place after the initial assessment of the report and which is verified by the relevant program will be reviewed for acceptance and the possibility of an upgraded facility color rating. Evidence of remediation outside the program's normal audit cycle will be accepted only if:

- The current facility rating is Orange but the “base” color rating of the most recent audit report was Green or Yellow;
- Evidence of remediation is submitted along with a copy of the Standard Audit (Full Scope Audit)

Submitting information to upgrade your facility rating:

1. Supplier sends evidence of remediation to the Responsible Sourcing Supplier & Facility Administration team. Evidence should come from approved audit program documentation for example, from a published remediation audit report issued by the approved audit program.
2. Walmart assessor verifies report and reviews it to confirm the remediation has taken place.
3. Color rating changes from Orange to the base color if qualifiers were applied. If no qualifier was applied, rating would be revised to the respective base color.
4. Results are communicated to the supplier and captured in Retail Link systems.

Submit remediation evidence by email:

- Suppliers based in North & South America - rssfaam@walmart.com
- Suppliers based in China & Far-East - rssfacn@walmart.com
- Suppliers based in other countries - rssfain@walmart.com

To be accepted the email should include:

- Supplier ID Number
- Supplier Name
- Factory ID Number
- Factory Name
- Original audit report
- Remediation report issued through Approved Audit program



Audit and Assessment Policy & Guidance