



Ethical Trade Audit - A Guide to the Audit Process

Why is an audit needed?

Major Retailers & Brands are increasingly concerned that goods that are supplied to them are manufactured in a way that ensures fair treatment for all the workers involved in their production. One of the ways that companies can get assurance about the performance of their suppliers in this regard is by requesting a 3rd party audit to report on processes and the actual situation. In order to evaluate this, a set of requirements known as the Ethical Trade Initiative (ETI) Base Code have been formed as a benchmark standard and this is what you will be audited against in addition to local legislation.

What is the ETI Base Code?

The ETI Base Code is founded on the conventions of the International Labour Organisation (ILO) and is an internationally recognised code of labour practice covering elements as wide ranging as Working Conditions, Pay, Hours & Freedom of Association. Companies applying this code are expected to comply with national and other applicable law as a minimum. Where the provisions of law and this Base Code address the same subject, companies should apply that provision which affords the greater protection.

The aim of the audit is to evaluate the current level of conformity of your company with the ETI Base Code and the additional requirements included in the Sedex Members Ethical Trade Audit (SMETA) (<http://www.sedex.org.uk>). It is not a Pass or Fail audit or a certification programme and you will not be issued with any certificate of compliance by SGS. A copy of the ETI Base Code and the additional SMETA requirements are detailed later in this document & further information on the ETI Base Code can also be found at <http://www.ethicaltrade.org/>.

When will the audit take place?

We endeavour to schedule audits at the earliest available date and in line with the requirements of the site to be audited. Audits are generally scheduled on an either **announced** or **semi-announced** basis depending on the requirements of the brand/retailer the audit is commissioned for.

Announced:

You can agree a specific date with us on which the auditor/s will arrive and undertake the audit.

Semi-Announced:

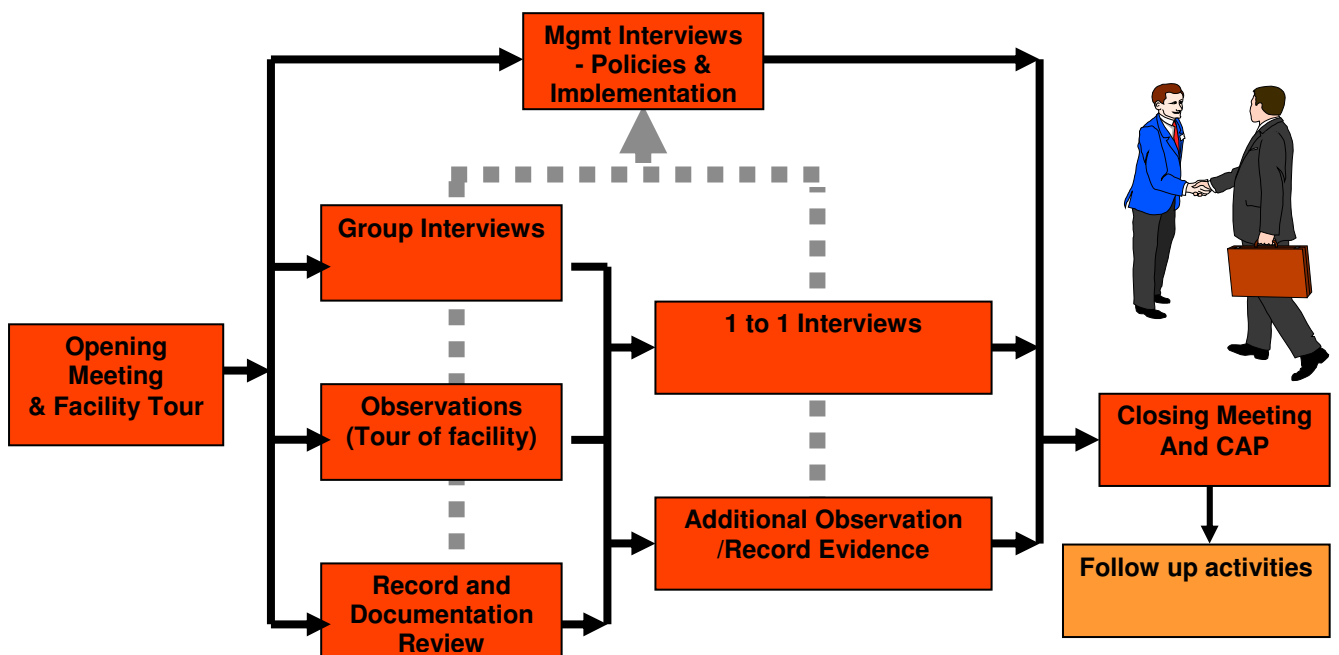
You will be provided with an audit window (between two and four weeks) during which the auditor/s will arrive and undertake the audit, however the specific date of the audit will not be provided in advance. For example you will be given an audit window of 1st February – 15th February and the auditor may arrive on any day within this period.

If there are specific days the site to be audited is not accessible or may close early, please make this clear prior to the audit window being finalised.

What will happen during the audit?

Prior to the audit you will be provided with an audit itinerary including approximate times for each section of the audit. However as an overview the audit entails the following stages and is illustrated in the diagram below:

- An opening meeting with the factory management team
- A complete and detailed tour of the factory (including storage, production and accommodation if applicable)
- Interview with managers and people responsible for various functions
- A documentary review of the health and safety records
- A documentary review of personnel files
- Interview with any Union or workers' representatives
- Private interviews with employees (selected by the auditor)
- A closing meeting with the factory management team, (with analysis of the results of the audit)



Where possible we would like you to invite a worker's representative to be present during the opening and closing meetings. This would assist in ensuring that the workers are aware of the audit and are better prepared for the interviews. In this regard, we are also attaching an information leaflet which should be placed on appropriate notice boards and be circulated among workers in other appropriate ways.

We would also ask you to note that the workers will be selected for interview by the auditors and that no attempt should be made by the facility's management to interfere with this process. Both individual & group interviews will be conducted and, whilst at the auditor's discretion, each session will last approximately 20 minutes. Interviewees will be guaranteed confidentiality and will be provided with a mechanism to make confidential complaints in case of any duress or victimisation following this audit.

A private room will also be necessary for the interviews. This should ideally be in an area where the workers can feel comfortable rather than a manager's office.

During the audit we will be required to review employee personnel files, working hours and payroll information. The review of this information is conducted in line with data protection requirements however should the site wish, the auditor can obtain written permission from the employees concerned to review their information.

Photos will be required to be taken for inclusion with the audit report. If there are specific areas of commercial confidentiality please advise the audit team so that they can discuss with you if there is a reason for photographs in relation to specific points.

We would also ask that a private place for preparation, review and conferencing is made available for the auditors use and finally that during the lunch breaks indicated on the audit itinerary provided, please direct the auditor to anywhere in the nearby area, or an on-site workers canteen if applicable, where a light working lunch can be purchased.

What will happen with all the information collated during the audit?

The information gathered during the audit will be treated confidentially and will only be shared with the organisation commissioning the audit and any other parties they in turn give access to the report.

At the end of the audit in the closing meeting the auditor will leave you with a Corrective Action Plan Report (CAPR) which will detail any non-compliances identified during the audit as well as any Observations and Good Practices noted.

The organisation commissioning the audit will receive the full report within 5 working days of the audit being completed.

If the audit report requires upload to Sedex it is important that you join Sedex, request the upload of the audit report and create the necessary links to allow relevant parties (retailers you supply to etc) to view the report.

Once the report is on Sedex you can then submit evidence of any applicable corrective actions you have taken.

Please note...

In the case of non-cooperation or obstruction by the factory management the audit may be aborted. This would include, among other cases, situations where the factory management will not allow access to parts of the factory, dormitory or other areas, interferes with the conduct of confidential interviews with the workers or uses abusive or threatening behaviour towards the auditors that would cause them to feel insecure. In such a case this would be treated as an abortive visit and the payee will be liable for the full audit costs related to this proposal. Where the audit has been requested as part of an ethical trade programme for one of your clients, the circumstances will also be reported to them.

Integrity is core to our business and we would also like to make you aware of the SGS Code of Integrity (http://www.sgs.com/code_english), which lays down the rules of behaviour in our day to day business and must be adhered to by all SGS employees and representatives. As such auditors cannot enter into any exchange or activity which is an attempt, or could be seen as an attempt, to compromise or influence their impartiality.

If you have any questions on this then please contact the SGS office.

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Pre-Audit Preparation

In order to assist us in preparing for this audit, we need to obtain some preliminary information. The easiest way to do this would be for you to give us access to your Sedex pre-assessment questionnaire if completed. If you are not able to do this, please complete the attached pre-audit questionnaire and return to me as soon as possible.

Should you have any questions in the meantime please do let me know – also below is a brief checklist to help you check on your pre-audit preparation progress:

Have you...	
Completed & returned to SGS the Sedex SAQ or SGS Pre-Audit Questionnaire in advance of the audit	<input type="checkbox"/>
Posted the information leaflet on notice boards (or via union) to inform employees of the audit	<input type="checkbox"/>
Invited suitable attendees, including a worker representative, to be present for the opening and closing meetings	<input type="checkbox"/>
Reviewed the audit itinerary	<input type="checkbox"/>
Arranged for a suitable room to be made available for the use of the audit team.	<input type="checkbox"/>

Annex 1: The ETI Base Code and additional SMETA Requirements

0: Management systems and code implementation :

- 0.1 Suppliers are expected to implement and maintain systems for delivering compliance to this Code.
- 0.2 Suppliers shall appoint a senior member of management who shall be responsible for compliance with the Code.
- 0.3 Suppliers are expected to communicate this Code to all employees and to their suppliers.
- 0.4 Suppliers should, where reasonably practicable, extend the principles of this ethical code through their supply chain.

1: Employment is Freely Chosen

ETI

- 1.1 There is no forced, bonded or involuntary prison labour.
- 1.2 Workers are not required to lodge “deposits” or their identity papers with their employer and are free to leave their employer after reasonable notice.

2: Freedom of Association and Right to Collective Bargaining are Respected

ETI

- 2.1 Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively.
- 2.2 The employer adopts an open attitude towards the activities of trade unions and their organisational activities.
- 2.3 Workers’ representatives are not discriminated against and have access to carry out their representative functions in the workplace.
- 2.4 Where the right to freedom of association and collective bargaining is restricted under law, the employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining.

3: Working Conditions are Safe and Hygienic

ETI

- 3.1 A safe and hygienic working environment shall be provided, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Adequate steps shall be taken to prevent accidents and injury to health arising out of, associated with, or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the working environment.
- 3.2 Workers shall receive regular and recorded health and safety training, and such training shall be repeated for new or reassigned workers.
- 3.3 Access to clean toilet facilities and to potable water, and, if appropriate, sanitary facilities for food storage shall be provided.
- 3.4 Accommodation, where provided, shall be clean, safe and meet the basic needs of the workers.
- 3.5 The company observing the code shall assign responsibility for health and safety to a senior management representative.

4: Child Labour Shall Not Be Used

ETI

- 4.1 There shall be no new recruitment of child labour.
- 4.2 Companies shall develop or participate in and contribute to policies and programmes which provide for the transition of any child found to be performing child labour to enable her or him to attend and remain in quality education until no longer a child.
- 4.3 Children and young persons under 18 shall not be employed at night or in hazardous conditions.
- 4.4 These policies and procedures shall conform to the provisions of the relevant ILO Standards.

5: Living Wages are Paid

ETI

- 5.1 Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income.
- 5.2 All workers shall be provided with written and understandable information about their employment conditions in respect of wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.
- 5.3 Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.

6: Working Hours are not Excessive

ETI

- 6.1 Working hours comply with national laws and benchmark industry standards, whichever affords greater protection.
- 6.2 In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every seven day period on average. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

7: No Discrimination is Practiced

ETI

- 7.1 There is no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.

8: Regular Employment Is Provided

ETI

- 8.1 To every extent possible work performed must be on the basis of recognised employment relationship established through national law and practice.
- 8.2 Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting, sub-contracting, or homeworking arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.

8A: Sub-Contracting and Homeworking:

- 8a.1 There should be no sub-contracting unless previously agreed with the main client.
- 8a.2 Home-working should be properly managed.

9: No Harsh or Inhumane Treatment is Allowed

ETI

- 9.1 Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.

Other Issue areas: A: Entitlement to Work and Immigration

Additional Retailer Specific Elements

- A1 Only workers with a legal right to work shall be employed or used by the supplier.
- A2 All workers, including employment agency staff, must be validated by the supplier for their legal right to work by reviewing original documentation.
- A3 Employment agencies must only supply workers registered with them.
- A4 The supplier shall implement processes to enable adequate control over agencies with regards to the above points and related legislation.

Other issue areas B : Environment

- B.1 Suppliers shall seek to make continuous improvements in their environmental performance and, as a minimum, comply with the requirements of local and international laws and regulations.
- B.2 The supplier shall be aware of and comply with their end clients' environmental requirements.

Annexe 2: List of Documents Required for the Audit

The auditors will need to see a number of documents in order to get a full picture of the facility's current level of compliance. These will include but will not be restricted to:

Policies:

- Child labour
- Wage and hours of work
- Disciplinary
- Benefits and allowances
- Health & Safety
- Environment
- Training
- Discrimination and harassment

Facility Specific Documents:

- Factory floor plan
- Applicable laws and regulations
- Labour contracts
- Employee handbook (terms and conditions of employment)
- Collective Bargaining Agreements (CBA)
- A list of all the chemicals and solvents used on this site
- Permits, operating licences, Certificates of Operations, etc
- Government Inspection Reports, e.g., sanitation, fire safety, structural safety, environmental compliance, etc.
- Machinery inspection/service logs
- Accident and injury log
- Emergency action procedures
- Evacuation plan
- Time records for the past 12 months
- Payroll records for past 12 months
- Piece rate records for the past 12 months (if applicable)
- Insurance, tax and other required receipts
- Production records
- Minutes of joint committees on OHS and disciplinary matters
- Previous social audit reports/Corrective Action logs