## Non‐compliances, Observations and Good Practice Evaluation

Non‐compliances and observations should be classified according to:

• The frequency of the problem

• The potential severity of the problem.

• The probability of recurrence

• The management system in place

• The response of the management

Non‐compliances can be categorised as:

• Minor non‐compliance

• Major non‐compliance

• Critical non‐compliance

A minor non‐compliance is:

• An occasional or isolated problem.

• An issue which presents a low risk to workers/those on‐site and the environment.

• A policy issue or misunderstanding where there is no evidence of a material breach.

A major non‐compliance is:

• A breach which represents a danger to workers/ those on‐site and the environment.

• A material breach of a code requirement/ law.

• A systemic violation of a code requirement/law.

A critical non‐compliance is:

• An issue which presents imminent risk to the environment or constitutes a significant breach of environmental legislation, and/or;

• Inconsistencies between different types of documents and environmental practices.

• Causing pollution to natural resources, which have an effect on human health.

• Evidence of the deliberate provision of false information to auditors so as to disguise the degradation of environmental conditions.

# Corrective Action Plan Report (CAPR)

• Audit findings: summary of non‐compliances, good practices, and evidence found.

• Classification of non‐compliances.

• Reference to the applicable code of conduct and/or law which has been contravened.

• Recommended corrective actions: auditor’s suggestion on how the audit findings can be resolved.

• Person(s) responsible for corrective action.

• Verification method:

o A desktop-based follow-up may be used to verify corrective actions for minor non- compliances but provides less assurance than a follow-up audit. Desktop-based verification should check corrective actions through photos, copies of certificates, invoices etc., submitted by the employment sites.

o Follow‐up audits are recommended for critical or major non‐compliances, or when corrective actions can be evaluated only through interviews and extensive documentation reviews (see section 6.4.1 for guidance on conducting follow‐up audits).

• Timescale for completion: the amount of time required for the issue to be closed. The time allocated for corrective actions to be completed should be appropriate, realistic, and timely.

### **What/Why is Supplier Sustainability Audit?**

General Business Principles (GBP)

The pursuit of a sustainable future – in economic, social and environmental terms – is reflected in its mission as well as in the General Business Principles (GBP). The GBP set out guiding principles on integrity and ethics in business conduct, including those that help create a sustainable supply chain.

Sustainable Supply Chain Policy

Code of Conduct for Business Partners

Supplier Sustainability Declaration

Buying company pursues mutually beneficial relationships with its Suppliers and seeks to award business to those Suppliers who are committed to acting fairly and with integrity towards their stakeholders, to observing the applicable rules of law and to supporting and respecting internationally proclaimed human rights. Supplier Sustainability Audit Program has been put in place for this purpose. The Program is based on Buyer’s expectations of Suppliers.

### **Who to Audit?**

Suppliers are expected to implement internal controls to ensure they are able to live up to their commitment of compliance. The type and frequency of the audit will depend on the risk profile of the Supplier.

Sustainability risk profile

- Country in which production sites are located

- Substances used in the product and manufacturing process

- Commercial interests: Buyer’s spend with Supplier

- Incidents reported to Buyer − directly or indirectly, e.g. via the media

- Type of product or service delivered to Buyer

### **What to Audit?**

• Human & Labor Rights

Freely-Chosen Employment,

Employment Contract,

Working Hours,

Wages and Benefit,

Human Treatment,

Non-Discrimination

• Healthy & Safety

Occupational Safety Licenses and Permits

Machine Safeguarding and Hazard Control

Occupational Health Check and Risk Control

Emergency Preparedness

Sanitation, Food and Housing

Health and Safety Communication

• Environment

Environmental Permits and Reporting

Chemicals and Hazardous Substance Management

Pollution Prevention and Resource Reduction

Waste and Emission Management

Energy Consumption and Greenhouse Gas Emissions

• Ethics

Business Integrity (No Improper Advantage)

Intellectual Property

Fair Business Practices and Competition

Protection of Personal Information

Disclosure of Information

• Management & Governance

Company Commitment

Management Accountability and Responsibility

Business Partners/Contractors Management

Risk Assessment and Risk Management

Training and Communication

## Audit Preparation

### Auditor/Auditing team

* be fully aware of the conditions, challenges and issues prevailing in specific the sector and the region.
* gather information on broader issues affecting the sustainability and the local community from a broad range of sources, including government and regional conservation agencies.
* have a detailed awareness and understanding of legislation and regulatory requirements .
* should have knowledge of what constitutes best practice in the sector

### Communicating Audit Arrangements

The auditor should communicate the following information to the employment site at least two weeks before the audit.

• Confirmation of receipt of the Self-Assessment Questionnaire.

• Information about the basis on which the supplier is being audited

• The audit agenda including: timetable, topics to be covered, and key personnel invited

• List of documents that the supplier will need to make available

• Confirmation of the site-tour arrangement regarding safety and personal protection

## Audit Output

Audit Report

• Description of the current situation, including how specific requirements are managed by the supplier?

• Evidence and information to substantiate the findings.

• For each non‐compliance or observation, the report should provide a:

o Description of the non‐compliance or observation, its frequency and areas affected.

o Classification to applicable law, code of conduct, etc.

o Recommended corrective action with a timeframe for completion, responsibility and verification method required.

## AUDIT EXECUTION

• Opening meeting

• Factory site tour (and optional perimeter survey)

• Management interviews

• Document review

• Audit team pre-closing meeting

• Closing meeting

• Agreement of findings

### Opening meeting withe senior management and managers of special functionality

• Introduce the audit team.

• Explain the purpose and scope of the audit,

o The audit standard (code of conduct, applicable law, international law, collective agreement ).

o Potential benefits to the supplier

o Clarify that the purpose of an audit is continuous improvement.

• Outline the audit process.

• Confirm any special arrangements/precautions/permissions.

• Provide an opportunity for questions and to address concerns.

### Factory site tour and perimeter survey

Site tour

• to observe the physical conditions and current practices and to form a view of how physical conditions measure up to the audit policy and requirements

• Understand the work done at the site.

• Evaluate good environmental management practices.

• Identify potentially vulnerable areas for environmental degradation.

• Check whether some operations may be sub‐contracted to other units.

• Observe management systems and practices, including atmosphere between management and workers.

Perimeter survey

• The surrounding environment (e.g., industrial park, neighbourhood, business district, etc.) and its advantages/constraints.

• Other facilities nearby (e.g., water treatment vs. external water discharge).

• The physical construction and natural extent of the employment site (e.g., structures on the property, natural/conservation areas, natural water sources, areas of waste disposal, etc.).

### Management Interviews

The audit team should work through the relevant code requirement discussing each issue area in depth with the managers. Open questions and discursive interview techniques should be used. It is important to talk to the senior managers, but also assistant managers who may have a different perspective.

### Documentation Review

The auditor should go through a comprehensive document trail including the following:

• Company policies

• Environmental management plans

• Legal compliance documentation / permits / licenses

o EIA and ploughing permits for cultivation of virgin soil

o Water use licences

o Dam safety certificates

o Authorisation permits for any on-site waste management facility

o Membership of fire protection agency

o Management plan or legal document formalising the conservation of biodiversity within natural areas

o Permits/authorisation letters for the growth of invasive alien plants

• Training records

• Proof of soil, crop, water and air samples

• Proof of conservation and restoration

• Machinery inspection/service logs

• Electricity and fuel records

Document Inconsistencies

Inconsistencies between different types of documents and practices should be raised with the employment site management as early as possible during the audit. Management should be encouraged to provide accurate records which present the full picture of the employment site’s operations for review prior to the closing meeting.

### Audit Team Pre‐Closing Meeting

to discuss/analyze the findings of the audit and identify inconsistencies, non‐compliances, observations, and good practices. The audit team should prepare for the closing meeting by identifying and agreeing:

• Non‐compliances found, including:

o status/severity (critical, major, minor).

o Specific evidence found.

o Recommended corrective actions.

• Systematic problems and issues.

• Good practice examples.

• Prioritisation of issues.

• Any requests for additional information or evidence.

### Closing Meeting

to go through the findings, agree on them and to agree on a CAP.

• Reconfirm the purpose of the audit.

• Recognize good practices.

• Agree on non‐compliances.

• Suggest corrective actions, timing, and responsibility.

• Get sign‐off on the Summary of Findings and Corrective Actions by both auditor and employment site.

## Non-Compliance Findings and CAP

### Overtime

Factories across all sectors are typically plagued by non-compliance with regard to provisions of overtime. Following are the major causes for non-compliances with regard to overtime:

* Workers stay for longer hours to avail the benefits of overtime wages
* Excess hours of overtime clocked and not accounting for overtime hours
* Single payment made for overtime wages
* Overtime wages paid as other allowance, creating an impression that there is no overtime

#### What does the Law/Code of Conduct Say?

In India, a worker in a factory should not be allowed to work for more than 48 hours in a week, more than 9 hours in a day and more than 6 days a week. The number of working hours in excess of the above is treated as overtime and requires the employer to pay extra wages for overtime, i.e., twice the rate of ordinary wages.

Most often, it is only when a factory is subject to an inspection that non-compliances relating to overtime are brought to light.

The prominent cause of frequent occurrence of such non-compliances is a clear disconnect between the management of the factory and its workers coupled with their approach in driving the organization towards a culture of compliance. In some cases, employers are compelled to deal with grave non-compliances with regard to overtime.

#### Corrective Action Plan

Factories can minimize or eliminate overtime in numerous ways depending on the factors resulting in overtime such as manpower, productivity, location, etc. Apart from observing a strict overtime policy for its workers and having a stringent mechanism to capture daily attendance, the factory could adopt unconventional methods like geo-tagging and access control disablement after 9 hours, to curb and prevent overtime inconsistencies and gaps.

The factory may also consider appointing in-house personnel to scrutinize these aspects. The factory may also engage in discussions with the workers to identify the overtime hours clocked and verify the overtime payment made.

* Notifying employees in writing as to the wage & hour obligations.
* Providing employees a written complaint procedure
* Appoint personnel to scrutinize wage & hour issues
* Increase employees’ hourly wage and offer leave benefit
* Unconventional methods: geo-tagging, access disablement, etc.

### Liquid/Water Management

Non-Compliance Findings

* Liquid waste is inappropriately classified or recorded/tracked
* Liquid waste is inappropriately separated from and disposed of as “stormwater”
* Risk of leakage of liquid chemicals during storage and transportation due to inadequate maintenance of equipment

#### What does the Law/Code of Conduct Say?

* Participants shall implement a liquid/water management program that documents, characterizes, and monitors water sources, use and discharge; seeks opportunities to conserve water; and controls channels of contamination.
* All waste liquid/water is to be characterized, monitored, controlled, and treated as required prior to discharge or disposal.
* Participants shall conduct routine monitoring of the performance of its waste liquid/water treatment and containment systems to ensure optimal performance and regulatory compliance.

#### Corrective Action Plan

* To investigate why the liquid waste was not appropriately classified and disposed
* To write a ‘Lessons Learned’ notification to inform all engaged staff of this incident
* To develop a trackable procedure including waste classifications, disposal and documentation requirements and appoint personnel to supervise this
* To update Equipment/Asset management system to stipulate the requirement for timely and adequate maintenance as part of KPI .