

Walmart[®]

GLOBAL ETHICS & COMPLIANCE



AUDIT AND ASSESSMENT POLICY AND GUIDANCE

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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.



Policy

Any facility producing product for sale or use by 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 region/territory risk categories, and the risk category of a facility determines whether and when a facility must submit an audit to Walmart. The region/territory risk categories reflect indicators of good governance in the region/territory where the facility is located and were derived using data compiled by the World Bank.

Category 1 – Lower Risk: Facilities located in Category 1 regions/territories 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 region/territory may be selected as part of this annual sample.

Category 2 – Medium Risk: Facilities in Category 2 regions/territories 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 regions/territories, plus a prequalification audit (discussed below) is required for new facilities.

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

Prior to receiving orders to produce product for Walmart, new facilities must meet the below requirements:

- New facilities located in Category 1 or 2 regions/territories that produce Direct Import Merchandise (product where Walmart will serve as the importer of record) must obtain a social audit and receive a Green, Yellow, or Orange color rating.
- All new facilities in Category 3 regions/territories must obtain a social audit and receive a Green or Yellow color rating.

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

In addition to meeting Walmart's standard third-party Responsible Sourcing Compliance audit requirements (and any additional audit requirements of other Walmart departments), facilities within the Walmart Responsible Sourcing Compliance disclosure scope located in Bangladesh are required to participate in and be in good standing with a Walmart-approved safety initiative. Suppliers interested in using a facility in Bangladesh should check with a member of the Responsible Sourcing Compliance team well in advance of disclosure and planned production to learn more about this important requirement.

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, having an audit conducted by an [APSCA](#)-certified or APSCA-registered* auditor, 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 requires that the audit is conducted by an APSCA-registered auditor.

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.

APSCA is currently phasing out the "Registered Auditor" level. After June 1, 2023, all auditors conducting audits for Walmart-approved programs must be APSCA certified.

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.

Small Supplier Audit Alternative

In order to cater for specific challenges small and less mature suppliers face, while still providing Walmart with the ability to identify and mitigate risk, Walmart affords an alternative option to a traditional third-party audits. When an audit is normally required, small suppliers have the choice to submit social compliance audits from approved audit firms or participate in the [approved small supplier program](#).

Suppliers meet the definition of Small Supplier if:

the supplier's global sales revenue (total turnover) is under \$3 million per year; or

the supplier's total global sales revenue to Walmart Inc. is under \$350,000 per year.

Supplier facilities located in a high-risk country category will not be eligible to participate in the approved small supplier programs.

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

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

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 Compliance 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.

Policy

Consequences for Non-Compliance

Facility assessments may cause suppliers to lose the ability to use a facility for manufacturing product for sale or use by 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

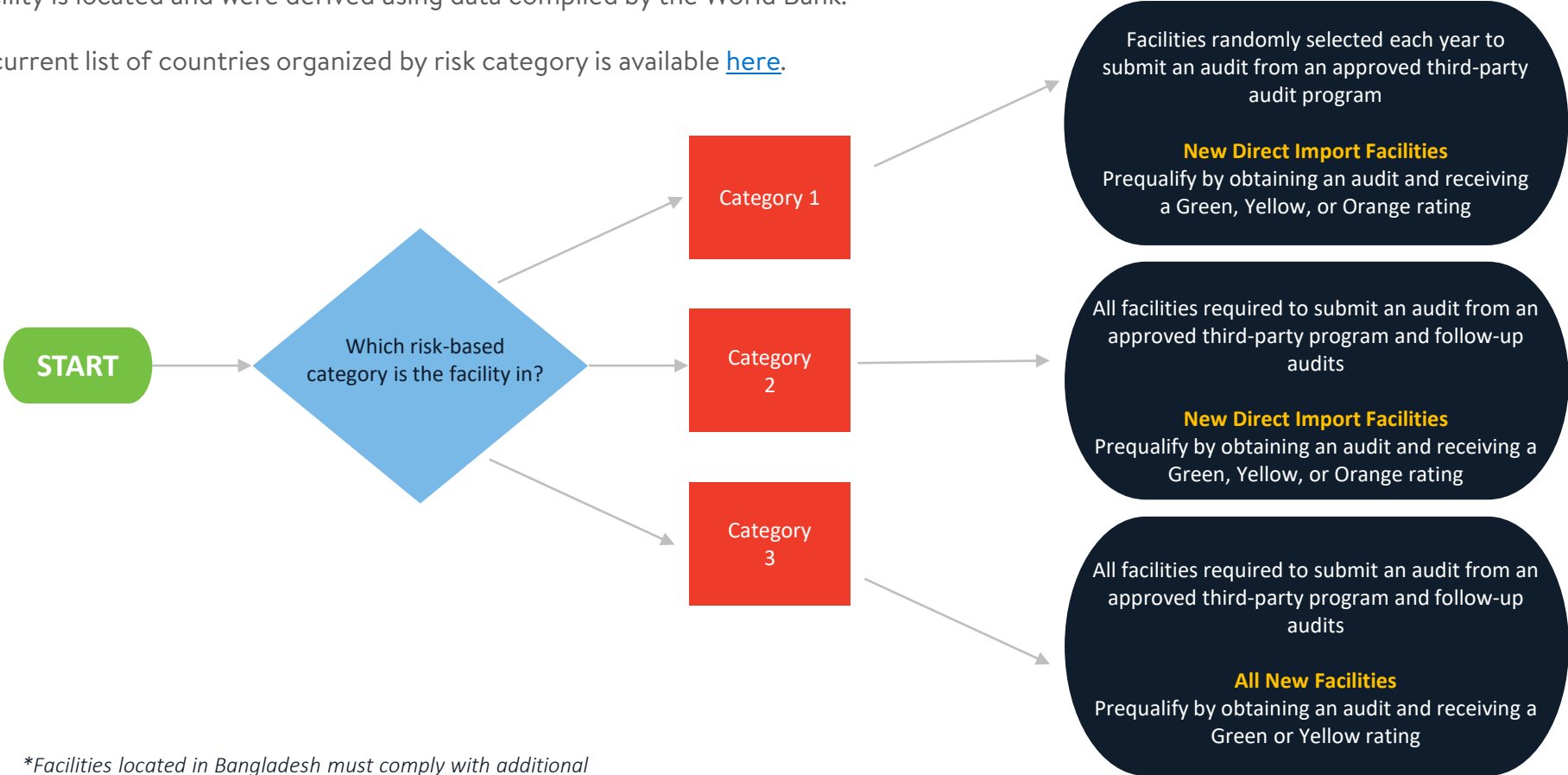
In addition to monitoring suppliers' facilities through audits, Walmart investigates certain allegations that suppliers and their facilities have engaged in conduct that may violate Walmart's Standards for Suppliers. Responsible Sourcing Compliance receives allegations through several sources, including 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.

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*

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, ensuring an APSCA-registered auditor conducts 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: Link Walmart in the audit program platform

Step 4: Submit your audit report

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 an APSCA audit firm in good standing
- Not an APSCA-registered auditor
- Facility is not eligible for Walmart production
- Valid audit already on file
- Report is not submitted in English
- No program reference number provided
- Facility must continue with the same program until rating improves to Yellow or Green

Guidance – Approved Audit Programs

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

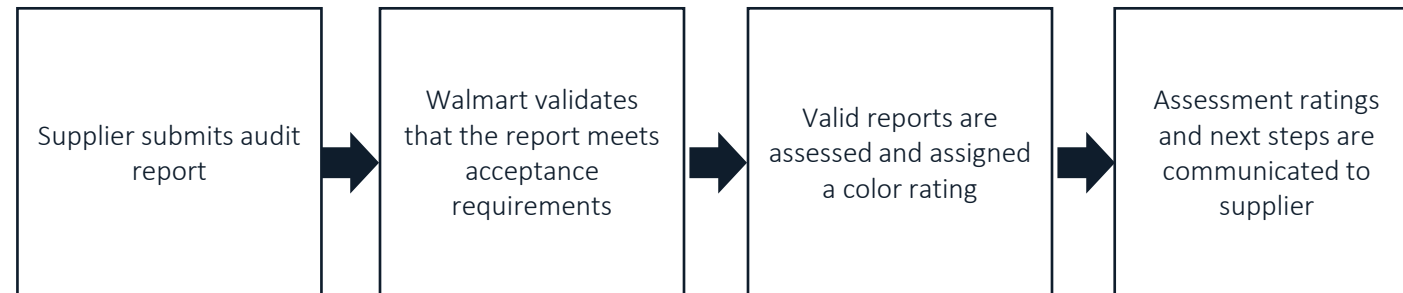
- [Best Aquaculture Practices \(BAP\)](#)
- [amfori Business Social Compliance Initiative \(BSCI\)](#)
- [Responsible Business Alliance \(RBA\)](#)
- [ICTI Ethical Toy Program \(IETP\)](#)
- [SEDEX Members Ethical Trade Audit \(SMETA\)](#)
- [Social Accountability International \(SA8000\)](#)
- [Worldwide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

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

[Small Supplier Program administered through Intertek](#)

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.



Guidance – Color Ratings

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




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 manufacture product for sale or use by 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>In Category 3 countries, prequalification is required, and 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 Ratings

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



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

Guidance – Submitting Information for Possible Facility Rating Upgrade

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 Yellow or Orange;
- 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 Yellow or Orange to the 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 - rssfam@walmart.com
- Suppliers based in China & Far-East - rssfaccn@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