

Responsible Sourcing Social Audit Program for External Business Partners

Audits for 1st Tier EBPs

Audits are used as a tool to identify and address social and environmental sustainability issues at External Business Partners “EBP” sites. P&G requires some EBPs to execute Audits to confirm their compliance. We see audits as an opportunity to continually improve our operations and the way we conduct business. We highly encourage our EBPs to reapply this practice with their own suppliers, so we can jointly learn about our supply chains and make them more robust and competitive.

P&G selected the SMETA audit (SEDEX Members Ethical Trade Audit) as the methodology of choice. SMETA was created by the membership of SEDEX (Supplier Ethical Data Exchange), a non-profit organization promoting ethical and responsible supply chains, to provide a central agreed audit protocol, which can be confidently shared via the SEDEX online platform (SEDEXglobal.com).

A SMETA 4-pillar audit includes labor standards, health & safety, entitlement to work, subcontracting, environment and business practices. SMETA utilizes the Ethical Trading Initiative (ETI) base code and the local law as main pillars.



Supplier Citizenship

Selection Process for EBP & Frequency

P&G executes regular assessments of their supply base, combining external elements and internal focus areas. The output of this assessment is a list of EBPs to be audited and are conducted at site level. If the EBP has multiple sites supplying to P&G, P&G will advise which site(s) will be audited independently.

Cost

As the methodology is standard and the audit results are owned by the EBP and can be shared with multiple customers, the cost of the audit is covered by the EBP. By eliminating the duplication of multiple audits, EBPs are able to save time and resources and achieve greater efficiency with their business partners.

Accepted External Audit Firms and Audit Methodologies

P&G uses external audit firms to conduct the audits. P&G has an agreement with the inspection, verification, testing and verification company Société Générale de Surveillance (SGS), which enables EBPs to benefit from a negotiated price. SGS tracks and reports progress to P&G regularly and are familiar with P&G's non-compliance management. SGS is therefore the preferred audit firm however other auditors that follow the SEDEX expectations can be found at this [link](#).

P&G will also accept other Audit Methodologies that include all necessary topics.

AIM-PROGRESS

P&G is a member of AIM-PROGRESS, a group of Fast Moving Consumer Goods companies collaborating on Responsible Sourcing. As part of its mutual recognition framework, audits done for other members of AIM-PROGRESS are recognized by P&G.

For more details on AIM-PROGRESS mutual recognition framework, please visit: aim-progress.com.

SEDEX Membership

Audited EBPs must become a SEDEX member (B member, annual membership of 40,32GBP+VAT). Being a SEDEX member will provide the following benefits to your organization:

- Have access to a Self-Assessment Questionnaire (SAQ) (Environment, Health & Safety, Business Ethics and Labor Standards)
- Upload and store audit reports, certificates and corrective action plans and request an audit
- Share your information with multiple customers

When registering on SEDEX, please create the link with P&G's companies, so that your audit and the status of remediation are visible to P&G. EBPs should renew their SEDEX membership annually.

Guidance on SEDEX is available online to B members or alternatively through the SEDEX helpdesk:

Email:
helpdesk@sedexglobal.com

Phone:
China +86 (0)21 6103 1622
US/Canada: +1 888 487 6146
Europe/Rest of World: +44 (0)20 7902 2320

Engagement

A notification is sent to the EBP copying the P&G EBP Relationship Owner detailing: the need for an audit, the time for scheduling the audit and registration/linking process for SEDEX. The EBP and P&G EBP Relationship Owner will receive reminder notifications until the EBP has fully engaged with the external audit company and SEDEX system. If the EBP fails or refuses to complete any of the engagement steps, the issue will be escalated.

Audit Remediation

After the Audit is complete, the external audit firm will issue a Corrective Action Plan identifying non-compliance issues with the appropriate remediation steps. After the Audit and Corrective Action Plan are uploaded into the SEDEX platform by the EBP, a notification is sent to the Audited EBP and the P&G EBP Relationship Owner detailing: the Audit results, the Corrective Action Plan and actions required to meet P&G's Minimum Compliance Standard. The Audited EBP and EBP Relationship Owner will receive reminder notifications every two weeks until the EBP has complied with P&G's Minimum Compliance Standard.

If the Audited EBP refuses to remediate any non-compliance issue or fails to comply with P&G's Minimum Compliance Standard, the issue will be escalated.

EBPs must complete the following steps

- Ensure Audit is uploaded and published in SEDEX for P&G to view.
- Enter their Corrective Actions in SEDEX.
- Alert the auditor the Corrective actions are available in SEDEX for verification.
- Schedule a follow up audit (if required) to verify the Corrective Actions are acceptable.
- Ensure follow up audit is uploaded and published in SEDEX for P&G to view.

Minimum Compliance Standard

Maintaining minimum compliance requires:

CRITICAL

- No Critical non-compliance issues (as per SMETA) or
- All Critical non-compliance issues remediated and closed with an audit within 90 days AND

MAJOR

- No Major non-compliance issues (as per SMETA) identified in the areas of Accommodations, Children & Young Workers, Discrimination, Employment Freely Chosen, Freedom of Association/Collective Bargaining, Healthy, Safety & Hygiene, Discipline/Grievance OR
- All Major non-compliance issues identified in the above areas remediated and closed with an audit within 90 days.

Note: an inability of an EBP to have or maintain P&G's Minimum Compliance Standards or remediate imminent dangers issues may lead to reduction in or termination of business. Imminent danger issues identified and flagged by the auditor must be stopped immediately and remediated within 7 days; these are critical issues with immediate remediation timeframe as per SMETA, such as child labor under 15 years old or young person engaged in hazardous work, fire exits locked or no fire exits, premises or accommodation not structurally safe, clean drinking water not available, sexual abuse or harassment. These issues will be escalated.

Continuous Improvement

Continuous improvement must be shown between audits for:

- All Major non-compliance issues identified in the areas of Regular Employment, Wages, Working Hours, or Other systems (Environment, Management Systems) and
- All Minor non-compliance issues

Audit Release:

After the Audited EBP has met P&G's Minimum Compliance Standard, a notification is sent to the Audited EBP and the P&G EBP Relationship Owner detailing that the EBP has met P&G's Minimum Compliance Standard and reminding the EBP that continuous improvement must be made between audit cycles for all Major non-compliance issues identified in the areas of Regular Employment, Wages, Working Hours, or Other systems (Environment, Management Systems) and all Minor non-compliance issues.

Visit: <http://www.sedexglobal.com/ethical-audits/smeta/> for additional details on the SEDEX Members Ethical Trade Audit and to review the following documents:

- SMETA Best Practice Guidance
- SMETA Measurement Criteria
- SMETA Report
- SMETA Corrective Action Plan