



Responsible Business Alliance

Formerly the Electronic Industry Citizenship Coalition

Advancing Sustainability Globally

Validated Audit Process (VAP) Introduction

VAP Operations Team

October 2017



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- VAP Process Overview
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An industry solution for improving business practices

The Validated Audit Process (VAP)



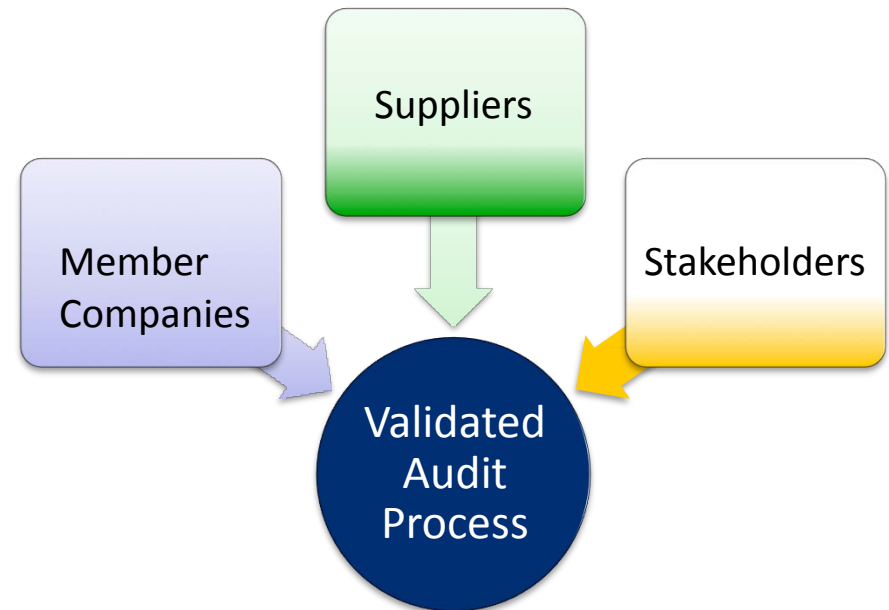
Value of the VAP

Is your business effectively managing social, ethical, and environmental risks in your supply chain?

Poor social and ethical performance in the supply chain can be damaging to your brand and shareholder value

The Validated Audit Process (VAP) provides companies assurance in identifying risks and driving improvements and robust management systems for labor, ethics, health, safety, and environmental conditions in the supply chain.

Transparency is the key to a successful audit. The Validated Audit model is contingent upon the supplier's willingness to being open and honest about their social and environmental process and helps to build long lasting relationships with customers and stakeholders.





The VAP provides a comprehensive social and environmental assessment

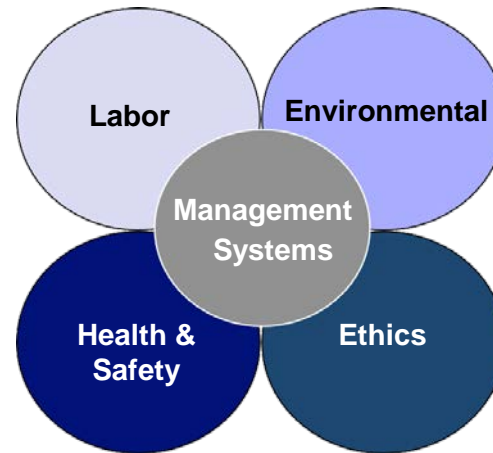
The Validated Audit is a key step of a capability development model that assesses conformance to the RBA Code of Conduct, local laws, and regulations through a management systems approach to drive sustainable solutions.

Treat employees with dignity & respect

- 1) Freely Chosen Employment
- 2) Child Labor Avoidance
- 3) Working Hours
- 4) Wages and Benefits
- 5) Humane Treatment
- 6) Non-Discrimination
- 7) Freedom of Association

Evaluate & control exposure to hazards

- 1) Occupational Safety
- 2) Emergency Preparedness
- 3) Occupational Injury & Illness
- 4) Industrial Hygiene
- 5) Physically Demanding Work
- 6) Machine Safeguarding
- 7) Sanitation, Food, and Housing
- 8) Training



Protect the environment

- 1) Environmental Permits & Reporting
- 2) Pollution Prevention & Resource Reduction
- 3) Hazardous Substances
- 4) Wastewater & Solid Waste
- 5) Air Emissions
- 6) Product Content Restrictions
- 7) Storm Water Management
- 8) Energy Consumption and Greenhouse Gas Emissions

Uphold the highest standards

- 1) Business Integrity
- 2) No Improper Advantage
- 3) Disclosure of Information
- 4) Intellectual Property
- 5) Fair Competition
- 6) Protection of Identity and Non Retaliation
- 7) Responsible Sourcing of Minerals
- 8) Privacy

Management Systems

- | | |
|---|--------------------------------------|
| 1) Company Commitment | 7) Communication |
| 2) Management Accountability and Responsibility | 8) Worker Feedback and Participation |
| 3) Legal and Customer Requirements | 9) Audits and Assessments |
| 4) Risk Assessment and Risk Management | 10) Corrective Action Process |
| 5) Improvement Objectives | 11) Documentation and Records |
| 6) Training | 12) Supplier Responsibility |



Defining the Validated Audit Process

A VAP audit provides a unique combination of depth and quality assurance in an independent, sharable qualified third party end-to-end audit service focused on improving business practices.

1 to 3 day Checklist Audit

- Closed (Y/N) questions
- Lack auditor checks on systems, policy and/or data triangulation
- Limited coverage and time on site, resulting in limited depth and # issues found
- Challenging to share a common audit report

RBA VAP Audit

- Systems based evaluation, ensuring adequate depth (days on-site based on size and complexity), worker interviews and data triangulation
- Management of the end to end process approved audit firms and auditor certification
- Rigorous Quality Assurance Process

Financial or Legal Due Diligence Audit

- Evaluates legal compliance & operational risks to inform investment and risk management
- Significant auditor day rates



Benefits of using the Validated Audit Process

STANDARDIZED APPROACH

Tools

Validated Audit tools were developed using the highest standards across industries. All VAP lead auditors are approved by the RBA Audit Program Manager (APM) and are required to use common tools, templates, and methodology.

Validated Audit Management

All Validated Audits are independently managed by a trusted third party Audit Quality Manager to ensure report consistency and quality. Auditor performance is evaluated on each audit as well as aggregated data on an ongoing basis.

ACTIONABLE RESULTS

Robust Reporting

Validated Audit Reports identify improvement opportunities in social and environmental practices, performance, and management systems. The process provides good practices to help your company understand next steps to reduce risk and improve practices.

Improved Efficiency

Validated audits provide a streamlined approach for responding to multiple customer audit requests. Factories will have one audit report to share with all their customers, reducing supplier “audit fatigue” and duplication of effort. This enables your company to focus on root cause and continuous improvement efforts.

DEMONSTRATE YOUR COMPANY'S LEADERSHIP

Compliance

Your customers are assured of Auditee conformance to the RBA® Code of Conduct, local laws, and regulations. Proactive engagement in addressing risks through the VAP process demonstrates supplier accountability and commitment to improving working conditions in the supply chain.

Transparency

By proactively managing risks and by providing support to address improvements where needed, Validated Audits help suppliers build trust through open dialogue with customers.



Audit Comparison

Validated Audit Benefits

- VA offers full management and oversight by an audit quality manager, which provides independent double quality check on each report prior to release and a consistent interpretation of the RBA Code of Conduct (See next slide)
- All audits are conducted by RBA approved audit firms with auditors who are either RBA IRCA certified or RBA VAP approved
 - All auditors are approved and auditor performance is monitored
 - Audit assignment is based on audit firm performance
- Consistent methodology and tools are used
- Audit reports can be shared with multiple customers
- VA provides a full facility evaluation to the RBA code of conduct
- Authenticated VA serial number or watermark tracking
- Audits are managed and stored in EICC-ON

Non-Validated Audit

- Lack of centralized audit management
- Audits lack third party oversight and quality assurance
- Auditors may or may not be RBA approved or IRCA certified
- Inconsistent interpretation of RBA Code of Conduct
- Audit coverage may or may not include entire facility, which limits sharing across multiple customers
- Lack of VA serial number or watermark tracking
- Audit management and audit report availability in EICC-ON



Merits of VAP

Benefits	Non-Validated		Validated
	AMA	CMA	VAP
<i>4th Party Oversight</i> by APM			X
Two <i>Independent Quality Checks</i> for consistency across approved audit firms			X
Two auditor minimum (EHS lead and Labor/Ethics lead)			X
<i>Independent billing</i> , no money changes hands between audit firm & auditee			X
Eligible for the VAP <i>Recognition Program</i>			X
Audit Report Available in <i>EICC-On</i>			X
Secure <i>audit sharing</i> among RBA members			X
Aggregated audit data included in <i>industry audit trends</i> (across all audit firms)			X
Auditor/Audit Firm <i>Report Card</i> after each audit			X
<i>Audit scope</i> includes entire facility and all customers (some exceptions allowed)			X
<i>Triangulated evidence</i> required for proof of every compliance and non-compliance			X
<i>Shadow Audits</i>			X
<i>Requirement to close Priority findings</i>			X
Post Audit Survey 1) Auditee Survey 2) Auditor Survey			X
<i>APM Managed CAP Options</i> (fee based)			X
Follows the full RBA <i>Code of Conduct</i>	?	?	X
Follows the RBA <i>Protocol</i>	X	X	X
Uses <i>Approved Audit Firms</i>	X	X	X



VAP Quality Management

Management steps to ensure a high quality VAP:

- Approved audit firms and Auditor Certification
- Auditors are RBA IRCA certified or RBA VAP qualified
- Shadow Audits
- Performance based approval of audit firms
- Conducts VAP Report quality review against extensive criteria
- Manage audit firms performance against:
 - Timeliness to process deadlines
 - Performance feedback from on site observation
 - Auditee/observer (through survey)
 - Shadow audit
 - Reporting quality
 - Response to complaint/allegation
 - Audit Quality Manager (AQM) manages and reports on improvements with audit firms
 - Audit allocation is linked to Audit firm performance

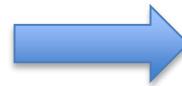


USEFUL RESOURCES



How to leverage VAP within your company

1. Build awareness of VAP process in your organization



- ✓ Senior management commitment
- ✓ Train all employees

2. Utilize the tools and resources provided

3. Start assessing your own facilities and processes and training your people



- ✓ Local Training Resources
- ✓ Certified RBA Factory Lead
- ✓ Complete the SAQ
- ✓ Use provided materials

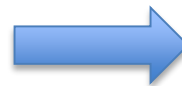
4. Make necessary improvements



- ✓ Root cause analysis and corrective action

5. Engage with your customers

6. Understand the audit process

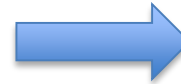


- ✓ Openly discuss with customers
- ✓ Utilize the Audit Quality Manager



How to leverage VAP with your suppliers

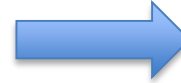
1. Check to see if your supplier already has a VAP report



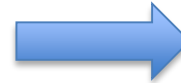
✓ Secure copy of report

If not,

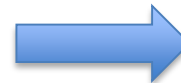
1. Build awareness of VAP at the supplier level
2. Build supplier awareness of the VAP process and Code of Conduct by providing links, suggestions for resources, or sharing your experience
3. Advocate supplier facility Self Assessment Questionnaires
4. Review and make necessary improvements prior to external audit based on assessment results
5. Encourage suppliers to engage with their customers
6. Understand the audit process



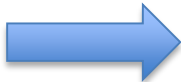
✓ Senior management commitment
✓ Train all employees



✓ Training Resources
✓ RBA Certified Factory Lead
✓ Complete the SAQ
✓ Use provided materials



✓ Root cause analysis and corrective action



✓ Openly discuss with customers
✓ Utilize the Audit Program Manager



Duration and cost of a Validated Audit

1. The price of a Validated Audit includes the following

Work Area	Cost Contributors
RBA Audit Program Management	Administrating : Contracts, invoices and business management
	Technical: Process management, coordination, quality assurance process,
Third Party Qualified Audit Firm	Labor cost and expenses
	Audit Preparation (scheduling, document review, etc.)
	On-Site Audit
	Report Writing
	Rates vary by firm and expertise
Fourth Party Audit Quality Manager	Independent review of Audit report against VAP Protocol
	Auditor Scorecard for each Audit
	Corrective Action Plan Management initial guidance*

2. Complexity of operations within the scope of the audit.

Criteria: dormitory, significant chemical operations, intensive physical handling, complex manufacturing operations, canteen, special operations, etc.

Size¹ - number of workers at a facility

	< 1000	1000-5000	> 5000
Low – no listed complexity criteria		4 days	8 days
Medium – 2 listed complexity criteria	4 days	6 days	10 days
High – 3 or more listed complexity criteria		8 days	12 days

Note

1. Size: employees include both hourly paid workers and salaried employees
2. Days: person days on site

* Additional guidance thru AQM CAP Managed Service available for fee – see slide 36

3. Costs have already been negotiated, is the result a competitive comparison analysis and breakdown is not provided because of legal/contractual restrictions

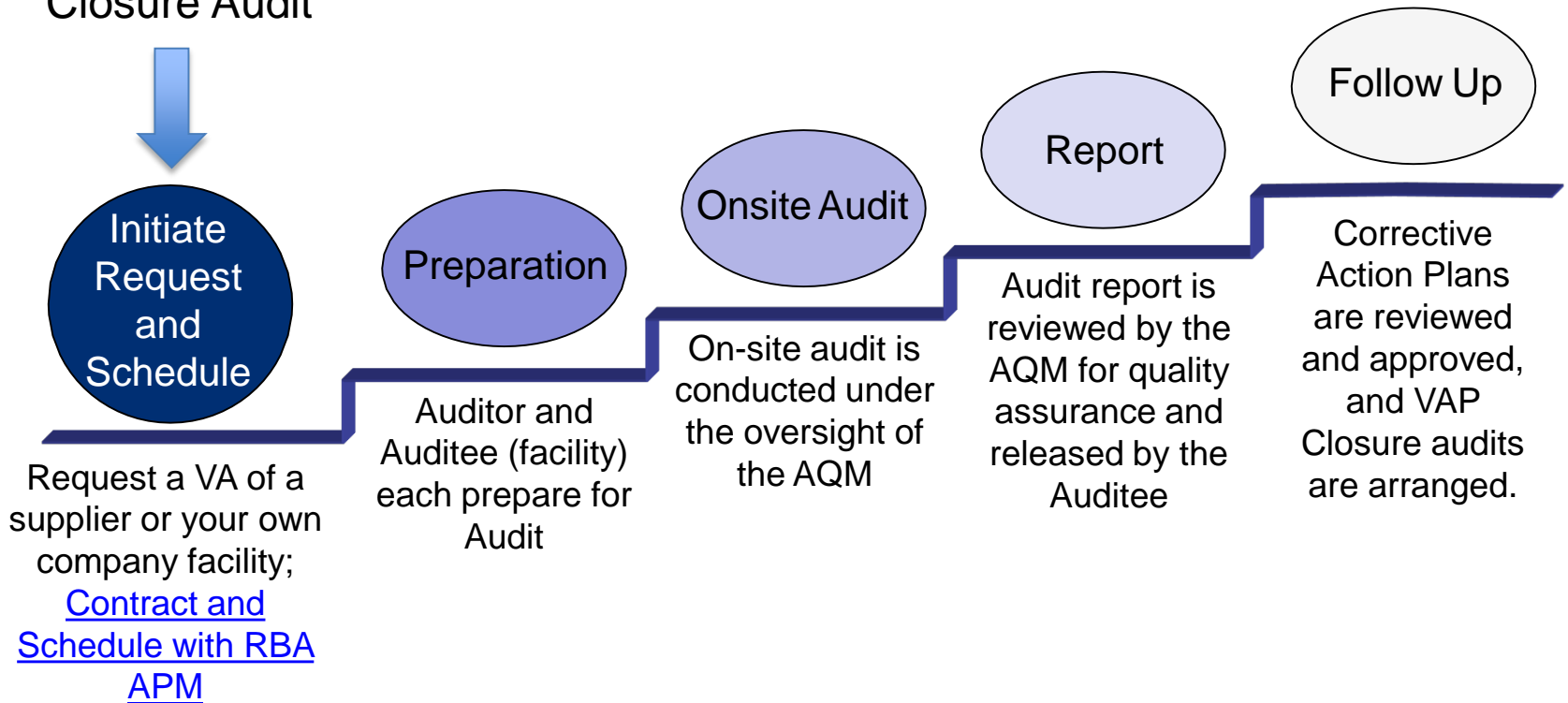


VAP PROCESS OVERVIEW



VAP provides a complete end-to-end process

The Validated Audit Process follows a simple five-step process from the initial request for an audit to corrective action management and the Closure Audit



Click [here](#) to access other tools, resources, and contracts related to the VAP



Scope of RBA Validated Audit

- The Scope of the Validated audit is **ALWAYS** full site (all lines of business, all buildings and sections or areas of a facility) in line with the RBA philosophy and mission to reduce audit fatigue and increase audit report sharing focusing on industry sector improvements within the supply chain.
- The scope of the audit can be limited due to the following reasons **ONLY**:
 - Site has more than 40,000 workers
 - Some operations of the site are not within the industries covered by RBA membership
 - A section of the site is non accessible due to proprietary or confidentiality reasons (within industries covered by RBA membership)
 - This is **ONLY** accepted if a written proof of objection from the customer of the restricted area is submitted and approved by the APM
 - Different sections of the site have different management systems, management teams or there is more than 5 km separation between the sections
 - Operate under a different legal entity or license



Types of RBA VAP audits

Manufacturing:

- Any site of which the main activity is manufacturing, assembly, repair, chemical, significant mechanical or distribution operation.

Service Provider:

- Any site of which the main activity is to provide a service such as design, call-center, security, canteen workers, cleaning companies, gardeners. **On site audit will happen at office of service provider and deployment site** (if applicable)

Labor Agent/Labor Contractor:

- Any service provider who provides any type of labor or staff to a site. **On site audit will happen at office of service provider and deployment site** (if applicable)



Requesting a Validated Audit

- Requesting a VAP audit:
 - Schedule the audit through EICC-ON
 - Non-RBA Online users: send request directly to the RBA Online help desk for help setting up your access to RBA Online [RBA-Online Help Desk](#). EICC-ON use is mandatory for the audit.



1. Initiate Request and Schedule



Validated audit request is initiated by the auditee

Facility being audited is the Auditee

Auditee creates profile in EICC-ON, pays a fee and adds a facility (fee is per year, per facility)

Auditee completes and releases a facility Self Assessment Questionnaire

Auditee submit an audit request thru EICC-ON and completes the necessary contracts* (via email) **do not complete attachment C**

Contracts are executed, the RBA Audit Program Manager will scope, assign and cost the audit

RBA APM completes attachment C (costing approval / Scoping Agreement and sends to Auditee

Auditee approves attachment C which fixes the date of the audit

* See next slide



RBA VAP contracts

- **Auditee Agreement**
 - An agreement which governs the Validated audit execution
 - This agreement includes Non Disclosure elements for all information and activities related to VAP
 - Auditee Agreement include multiple appendices which include:
 - Attachment B – Authorization to share report with RBA Members
 - Attachment C – Scoping Agreement where Auditee pay for Audit
 - Attachment D – Scoping Agreement where 3rd party pays for the audit on behalf of Auditee
- **RBA does not accept changes to the standard agreements to ensure consistency and fairness among all users of the Validated Audit Process**



Rescheduling/cancellation up to Audit Date*

Cancellation or Rescheduling charges depend upon how far in advance of the audit date the changes are made

- After contracting but no date agreed
 - NO Charge
- 16-20 business days prior to the audit
 - 20 percent of the agreed auditor labor cost plus incurred audit expenses plus 350 USD (Rescheduling) or 500 USD (Cancellation)
- 0-15 business days prior to the audit
 - Rescheduling - 30 percent of the agreed auditor labor cost plus expenses plus 350 USD (Rescheduling)
 - Cancellation - full auditor labor cost plus incurred audit expenses plus 350 USD (Rescheduling) or 500 USD (Cancellation)



2. Preparation



Preparation

Audit Date and Audit Firm are Fixed and contracts complete.

RBA APM sends linking email to Qualified Audit Firm and Auditee to connect all contacts for upcoming audit.

14 days before audit start date, Qualified Audit Firm will contact Auditee and set up 30-60 minute pre-audit preparation phone call.

Preparation call will be conducted 5-10 days before the audit. Audit Agenda will be given to Auditee and audit logistics will be discussed.

Auditee confirms to audit Program Manager if observer will attend. If so provides details of observer.

If observer attends, RBA APM will send observer contact info/ e-mail to all parties.

2 days before start of audit qualified audit firm confirms audit logistics via phone



Denial of Access/Cancellation at Facility during Audit

Denied access or cancellation of an audit during the audit will result in penalty charges as follows:

- Full audit cost plus incurred expenses



3. On Site Audit



Audit Onsite Overview

- Conduct Opening Meeting.
- Tour Facility (Initial and Detailed).
- Interview Workers.
- Review Policies, Procedures, Permits, Reports, etc.
- Analyze Data.
- Provide Daily Wrap-ups.
- Conduct Closing Meeting.



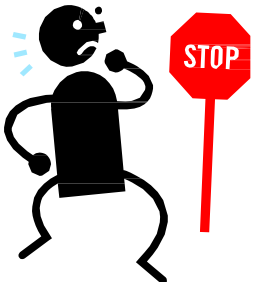
Auditee Obligations – 1/2

- Provide resources to complete working hours template on Day 1.
- Ensure all documents are ready for review by lunch time on Day 1. If not, **audit will be canceled.**
- Assign representatives for Labor, Ethics, Employee Health and Safety (EHS) and Management Systems.
- Ensure management representatives and workers selected for meetings and interviews are available at the times agreed.
- Ensure personnel, time and wage records for subcontracted workers in core operations are available by the end of Day 1.
- Provide required PPE and safety guidance during facility tours



Audit Observer

- Purpose – To provide feedback to the RBA member on audit process and audit firm performance.
- The Observer will not:
 - Attend worker interviews
 - Attend audit firm internal audit briefings and analysis
 - Visit product areas that are not their own (in cases where a customer in an observer).
 - Join individual management interviews (in cases where a observer is from a corporate office).
 - Interfere, guide, advise an audit firm or auditee in any way.





Shadow Auditor

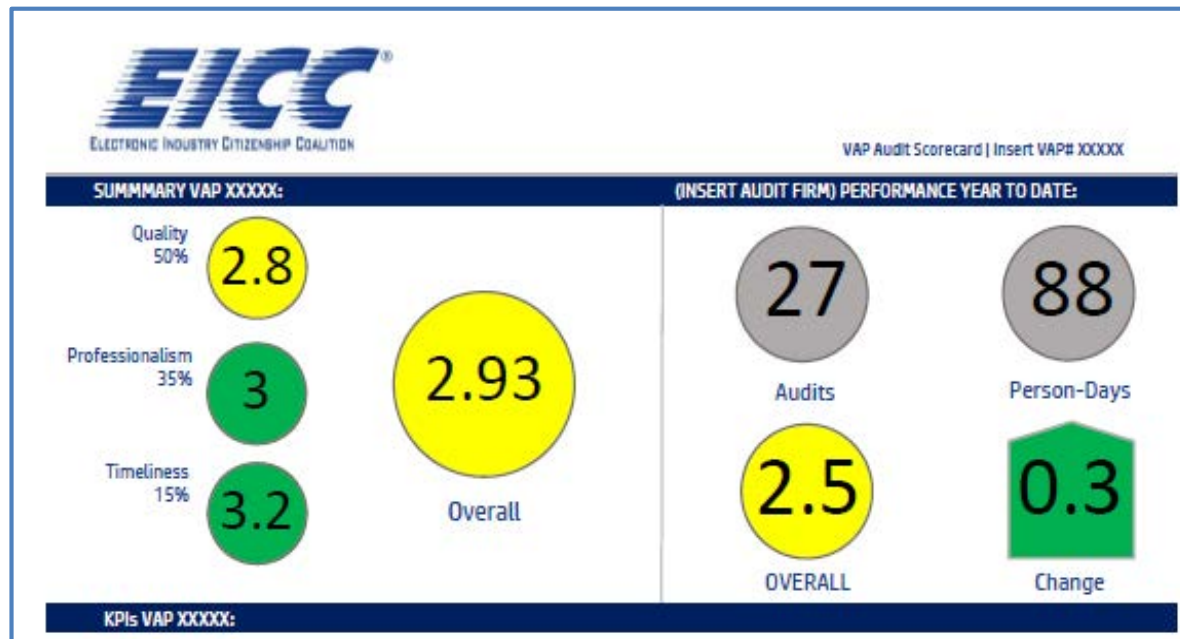
- Purpose – To provide feedback to the RBA on the auditors performance, competency and professionalism
- The Shadow Auditor will:
 - Attend worker interviews
 - Attend audit firm internal audit briefings and analysis
 - Visit all product areas
 - Join individual management
 - Intervene if necessary, guide, advise an audit firm





Assessing Auditor Performance

RBA and the APM piloted the Audit Report Card in Q3 and Q4 of 2016 and fully implemented it in 2017. An example of the Audit Report Card is below. In 2017 we are expanding our Shadow Audit Plan, hiring a full time RBA Shadow Auditor, another way of monitoring the on-site quality of the VAP program.





4. Report



Audit Report (VAR) timeline



Numbers in blue are “Days from closing meeting”



Validated Audit Report (VAR)

- Auditee owns the report data and can distribute the report as Auditee decides where Auditee pays for the Audit. Where a Third Party Payer paid for the report, the ownership of the report and distribution of the report is subject to a separate agreement
- Companies listed in attachment B may receive a copy of the report direct from the RBA APM and EICC-ON
- Please note:
 - The Report is available in system and must be distributed through the system
 - Working hour template completed during this audit is an attachment
 - Corrective Action Plan is managed in the system



5. Follow up



Corrective Action Plan

- Notes actions to be taken to address audit findings.
Develop a Correction action plan (CAP)
 - A fix during audit is still a finding but will be mentioned by audit firm as “**containment response**”
- Drafted using a standard excel template or “EICC-ON”.
- Must be shared with customers who are approved to receive the Validated Audit Report (VAR).
- Must be keyed into EICC-ON and approved by the assigned CAP Manager in order for a closure audit to be scheduled
- Requires mandatory closure audit to validate that corrective action has been implemented effectively. This is a separate audit and require costing approval (cost not included in this audit) and scheduling



CAP Management Options

All audits require the Corrective Action Plan (CAP) to be managed by a specific person.

Option #1 AQM Managed Cap Services

- The CAP can be managed through the AQM (VECTRA).
 - Centrally managed process with only one RBA Validated CAP.
 - Additional fee
 - Communication on the CAP and its progress will be managed by the APM with all customers listed in the “Auditee Approved Recipient distribution list”(attachment B).

Option #2 Auditee Managed CAP - This is outside the scope of the RBA

- The Auditee manages the CAP directly with the individually customers.
 - It is possible to have several CAPs depending on the customers.
 - A copy of the approved CAP MUST be entered into EICC-ON in order for any closure audit activity be scheduled thru RBA.*

Option #3 Customer Managed CAP - This is outside the scope of the RBA

- The Customer of the Auditee manages the CAP
 - A copy of the approved CAP MUST be entered into EICC-ON in order for any closure audit activity be scheduled thru RBA.*



Value of AQM Managed CAP*

	AQM CAP	CMA CAP	AMA CAP
Corrective Action for each finding in an audit	✓	✓	?
Qualifies for RBA Recognition when verified through VAP Closure Audit	✓	✓	✓
Requires closure as part of the VAP Process	✓	✓	✓
Highest level of independence for governments, customers and eco-label due diligence	✓		
Independent 3 rd Party monitoring of CAP process	✓		
Single CAP for multiple customers	✓		
Collective input of multiple customers to drive CAP Closure	✓		
3rd Party Quality Check of CAP to have the highest likelihood of successful closure audit	✓		
Statistically, highest CAP Closure rate	✓		

* This is a fee-based service



Closure audit process

All findings must be verified through a closure audit

- Follows same process as initial audit (request, scoping, costing approval, scheduling, on site, report)
- Timing should be based upon the type of findings in the initial audit (Priority, Major, Minor, Risk-of-Nonconformance)
- The closure audit should not occur later than 18 month maximum from receipt of the VAR
- **Closure audits on Priority findings are mandatory within specific timeframes:**
 - They are triggered by APM
 - If there are any other findings the auditee has closed and is ready to have verified, especially those requiring on-site verification, these can be included in a Priority Finding Closure Audit. These need to be agreed on upfront with the APM



Closure audit process

- Separate closure audits to verify closure of Major / Minor / Risk of Nonconformance items:
 - This is triggered by the customer or auditee
 - Typically all findings are included in a single closure audit
 - Best practice is a two-step closure audit
 - It begins with a remote verification
 - Followed by an on-site element
 - This often leads to a higher rate of success on-site as items can be addressed between the remote and on-site steps thus avoiding a 2nd, costly on-site element
- The focus of a closure audit is on the open findings but if the auditor encounters a code violation then that must be recorded and becomes a **new finding**



RBA VAP Audit Recognition Program

Factories who successfully complete a VAP, closing audit findings and verify closure through a VAP Priority Closure or VAP Closure audit, are recognized with a certificate valid for 2 years from last day of initial audit.**

RBA Framework → Site Level Recognition

Platinum	<ul style="list-style-type: none">•Social & Environmental Leader•Closes All Audit Findings
Gold	<ul style="list-style-type: none">•Above Average Sustainable Factory•Closes Priority & Major Findings
Silver	<ul style="list-style-type: none">•Sustainable Factory•Closes Priority Findings via VAP

Minimum VAP SCORE

200

180

160

Platinum

- ✓ Must be VAP (no CMA/AMA)
- ✓ Must close all findings and submit CAP in EICC-ON
- ✓ Must have VAP closure Audit
- ✓ Must have a score of 200

Gold

- ✓ Must be VAP (no CMA/AMA)
- ✓ Must close Priority & Major findings, submit CAP in EICC-ON
- ✓ Must have VAP closure Audit
- ✓ Must have a minimum score of 180

Silver

- ✓ Must be VAP (no CMA/AMA)
- ✓ Must close all Priority findings and submit CAP in EICC-ON
- ✓ Must have VAP Priority Closure Audit
- ✓ Must have a minimum score of 160

** Recognition expires when the audit expires

* If there are Priority Findings in Forced Labor or Child Labor, the site is subject to an unannounced audit over the next 12 months



GLOSSARY



Glossary Available

The Validated Audit Process Operations Management Team has created a glossary of commonly used VAP terminology. The glossary is available for reference on the [RBA website](#).



Contact information

- Contracting, Code and technical assistance
vap@responsiblebusiness.org (RBA Audit Program Manager)
- Validated Audit Process and Compliance
clai@responsiblebusiness.org (Chee Keong Lai, VP Compliance and Risk Assessment)
- Invoicing and payment
smoloney@responsiblebusiness.org (Steve Moloney, CFO)
- General non VAP RBA information
info@responsiblebusiness.org
- Tools and Resources
<http://www.responsiblebusiness.org/standards/vap/>