

# SUPPLY CHAIN SECURITY

## FACTORY AUDIT AND ASSESSMENT GUIDANCE



**Walmart**  
GLOBAL ETHICS & COMPLIANCE  
*Integrity Builds Trust*





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# Introduction

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Walmart's expectation of compliance with our Standards for Suppliers extends throughout the supply chain. We use a variety of Supply Chain Security (SCS) factory audits to determine our suppliers' overall compliance and to manage risk in the supply chain. These audits seek to monitor whether controls are in place to protect the shipment of goods against tampering and to guard against the introduction of un-manifested cargo when Walmart is importing the product.

Walmart reviews SCS facility audit reports suppliers submit and assigns each facility a color rating based on the results of the audit. The color rating determines whether the facility meets Walmart's expectations and when the next audit of the facility is due.



# Disclosure

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## Who to Disclose

Step one of the audit process is to disclose your facility to Walmart. Suppliers must disclose all facilities involved in the production of goods (includes not only finished, salable product, but also bulk or raw material products) where Walmart will be the importer of record (Direct Import items). This includes:

- The facility where the goods are substantially transformed into the goods Walmart sells;
- Any facility where the goods are packed into cartons;
- Any physical location between the place where the goods are packed and the place where the goods are loaded into a container (e.g., a warehouse); and
- Any facility where the goods are loaded into a container.

## How to Disclose

If a facility or site you use needs to be disclosed, you must add this facility to your supplier profile within Retail Link. For more details, please see this [detailed guide](#).

If the Walmart business you are supplying does not use Retail Link, please see this [guide](#) for how to disclose your facilities.

# SCS Audit Overview

To begin producing product in a new disclosed facility or continue producing product in a current active facility, suppliers must demonstrate compliance with our Standards for Suppliers by completing one of the following options.

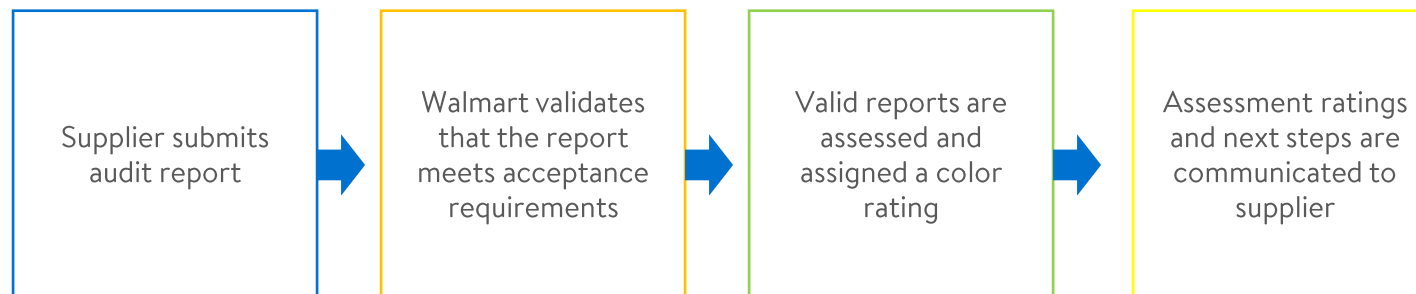
- Option 1: Obtain a Walmart SCS audit
- Option 2: Obtain a SCS audit from an approved third-party program
- Option 3: Participate in the small supplier program
- Option 4: Demonstrate that it is CTPAT Tier 2 or 3 certified

This disclosure is including, but not limited to, Direct Import Merchandise which are products manufactured for retail sale or Walmart-use in any Walmart format where Walmart or any Walmart entity is or will be the importer of record. This can include direct imports purchased directly by the Walmart retail market, as well as imports through Walmart Global Sourcing & Procurement. More on disclosure can be found [here](#).

Once an acceptable color rating is achieved the factory will be activated and may begin producing product or may continue producing if already active.

Follow-up audits will be required on an on-going basis, the cadence for which is determined by the color rating received and the country risk category the factory is in.

There are three country risk categories Walmart uses, 'High Risk', 'Medium Risk' and 'Low Risk'. These categories are based on supply chain analysis completed by the British Standards Institute (BSI). The higher the country risk category, the more frequent an audit will be due. The current country risk categories can be found [here](#).



# Country Risk Categories

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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.

**Category 1 – Lower Risk:** Facilities located in Category 1 countries 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 country may be selected as part of this annual sample.

**Category 2 – Medium Risk:** Facilities in Category 2 countries will be required to complete an audit and follow-up audits based on the color rating received.

**Category 3 – Higher Risk:** Same requirements as for Category 2 countries, plus a prequalification audit (discussed below) is required for new facilities.

All new factories, regardless of the risk category, must prequalify by obtaining a Green or Yellow rating before producing product for Walmart.

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.



# Audit Requirements

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It is the supplier's responsibility to take all necessary steps to demonstrate compliance to Walmart. When the option selected is a Walmart SCS audit or an audit with approved programs, the supplier is responsible for contacting the audit program or audit firm, arranging for the audit, paying for the audit, 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 or audit firm to remediate non-compliances at the facility.

## **Responsibility 1: Choose an Option**

Walmart provides multiple audit options for suppliers to demonstrate compliance with the security aspects of our Standards for Suppliers. Suppliers must first choose one of these options that is best for them.

Walmart does not limit suppliers' ability to choose from these options. There may be situations in the future in which Walmart will recommend certain options for specific suppliers, industries, or in certain geographies as needs and strategies dictate. We will update this policy if we make such a determination.

## **Responsibility 2: Arrange, Pay For, Obtain and Cooperate in the Audit**

The supplier is responsible for contacting the audit program or audit firm of its choosing, paying any necessary fees, and making its facility available for the audit under the terms outlined by the program or audit firm.

Walmart expects suppliers whose facilities are subject to audit to participate fully in the audit, to obtain all necessary preliminary and follow-up inspections and audits, to follow corrective actions or remediation plans (when provided), and to participate in training programs (if provided).

## **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.

## **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 or audit firm chosen. In addition, Walmart expects suppliers to prioritize the remediation of higher-risk findings that would lead to the facility receiving an Orange color rating.



# Audit Program Options to Demonstrate Compliance

Below is basic information on each of the four options that may be selected from to demonstrate compliance with the security aspects of the Standards for Suppliers. For detailed information on how to complete each option, please [click here](#).

## Option 1: Walmart SCS Audit

Walmart has designated approved Third Party Audit Firms to conduct Walmart SCS audits against a Walmart-defined protocol using Walmart's own templates and audit scoring system. The scope of these audits is based on the Minimum Security Criteria defined by US Customs & Border Protection and the AEOs (or equivalent) in other Walmart retail markets. Suppliers choosing this option are required to take all the necessary steps to submit an acceptable SCS audit report. This includes contacting the approved 3rd party audit firm, paying for the audit, arranging for the audit, cooperating with the audit firm to complete the audit, and remediating the non-compliances (as necessary).

## Option 2: Audit from an Approved Third-Party Program

The following third-party audit programs have been evaluated and can be submitted to demonstrate compliance with our standards. More information on each program can be found by clicking on the program's name.

- [Supplier Compliance Audit Network \(SCAN\)](#)
- [Worldwide Responsible Accredited Production \(WRAP\)](#)

## Option 3: Participate in the SCS Small Supplier Program

The SCS Small Supplier Program is a modified supply chain security audit program that increases the ability for small supplier facilities to successfully on-board and continue to do business with Walmart. Suppliers are eligible to use the SCS Small Supplier Program 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.

\* Walmart reserves the right to grant or withdraw exemptions to audits and audit alternatives at its discretion

Intertek operates the SCS Small Supplier Program. Eligible Suppliers who choose this option are required to register with Intertek, undergo training and complete the questionnaire along with the required documentary evidence. More information on the SCS Small Supplier Program can be found [here](#).



# SCS Audit Requirements

## Option 4: CTPAT Tier 2 or 3 Certification

A supplier or a supplier's facility that is CTPAT Tier II or Tier III certified will not have to provide a factory audit if the supplier:

1. Submits a request in the CTPAT Portal to monitor Walmart (SVI section), and
2. Submits to Walmart an image of its CTPAT Tier II or Tier III certification.

A supplier that takes these steps will satisfy the audit requirements for each of the facilities with which it is associated.

A supplier that is not itself CTPAT certified can also satisfy Walmart's audit requirements for any facility that is CTPAT certified by taking the same steps noted above. A supplier that does so will still need to choose one of the other options for any non-CTPAT-certified facilities in its matrix.

Once the steps are completed, a waiver will be uploaded to Retail Link and be valid for a period of one year or invalidated upon loss of CTPAT certification.





For more information, please see CBP website [here](#)



# Color Ratings

## Color Ratings


Walmart reviews audit reports that suppliers submit and assigns the facility a color rating based on the results of the audit. Walmart will notify suppliers of final color rating for reach audit submitted. It is the supplier’s responsibility to understand and comply with the color ratings.

	Rating Defined	Is production allowed?	Rating Notes	Category 1	Category 2	Category 3
 	<p>Red ratings identify facilities that have 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 certification has been revoked.</p>	<p>A Red rating typically inactivates a facility, which means the facility cannot produce product for 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 the Supplier and Facility Administration team to understand requirements to activate a Red facility.</p>	<p>New audit with Green or Yellow required to produce</p>	<p>New audit with Green or Yellow required to produce</p>	<p>New audit with Green or Yellow required to produce</p>
 	<p>Orange ratings identify facilities whose audits indicate more serious security related violations of the Standards for Suppliers.</p>	<p>Where pre-qualification is required, 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 that receive an Orange rating for a follow up audit may typically continue to produce product, while remediating violations, until the audit expiration date. Walmart will notify suppliers if this is not the case.</p>	<p>Three consecutive Orange ratings may result in a Red rating.</p> <p>Suppliers must remediate critical findings within 90 days. Walmart will notify suppliers when this is a required.</p> <p>Suppliers may be able to remediate violations to improve their rating.</p>	<p>Follow up audit via annual sample selection next year</p>	<p>Follow up audit in 1 year</p>	<p>Follow up audit in 6 months</p>

# Color Ratings

## Color Ratings

Walmart reviews third-party audit reports that suppliers submit and assigns the facility a color rating. It is the supplier's responsibility to understand and comply with color ratings



Rating Defined	Is production allowed?	Rating Notes	Category 1	Category 2	Category 3
Yellow ratings identify facilities whose audits indicate general compliance with the security aspects of the Standards for Suppliers.	<p>Yellow ratings meet our prequalification requirements and once in active status, may begin producing product.</p> <p>Facilities that receive a Yellow rating for a follow up audit and are in "active status" are approved for production until the audit expiration date.</p>	Suppliers may be able to remediate violations to improve their rating.	Follow up audit not required on a recurring basis. Walmart reserves the right to audit any facility at anytime.	Follow up audit required in 2 years	Follow up audit required in 1 year
Green ratings identify facilities whose audits indicate a high level of compliance with the security aspects of the Standards for Suppliers.	<p>Green ratings meet our prequalification requirements and once in active status, may begin producing product.</p> <p>Facilities that receive a Green rating for a follow up audit and are in "active status" are approved for production until the audit expiration date.</p>		Follow up audit not required on a recurring basis. Walmart reserves the right to audit any facility at anytime.	Follow up audit required in 3 years	Follow up audit required in 2 years

# Remediation – How to Submit Information

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 latest audit report (Full Scope Audit), 90 days prior to expiry date

### 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.

For more information on Remediation process, [click here](#).

### Submit remediation evidence by email:

CONTACT WALMART	
North, South & Central America	Email : <a href="mailto:rssfaam@walmart.com">rssfaam@walmart.com</a>
China & Far East	Email : <a href="mailto:rssfacn@walmart.com">rssfacn@walmart.com</a>
India, Europe, Africa, Middle East and all other Countries	Email : <a href="mailto:rssfain@walmart.com">rssfain@walmart.com</a>

### 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



# Consequences and Investigations

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## Consequences for Non-Compliance

Facility assessments may cause suppliers to lose the ability to use a facility to produce product for 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 document, 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. We receive allegations through several sources, including escalations from audit programs and audit firms, 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.