Supplier ESG Audit Guidelines

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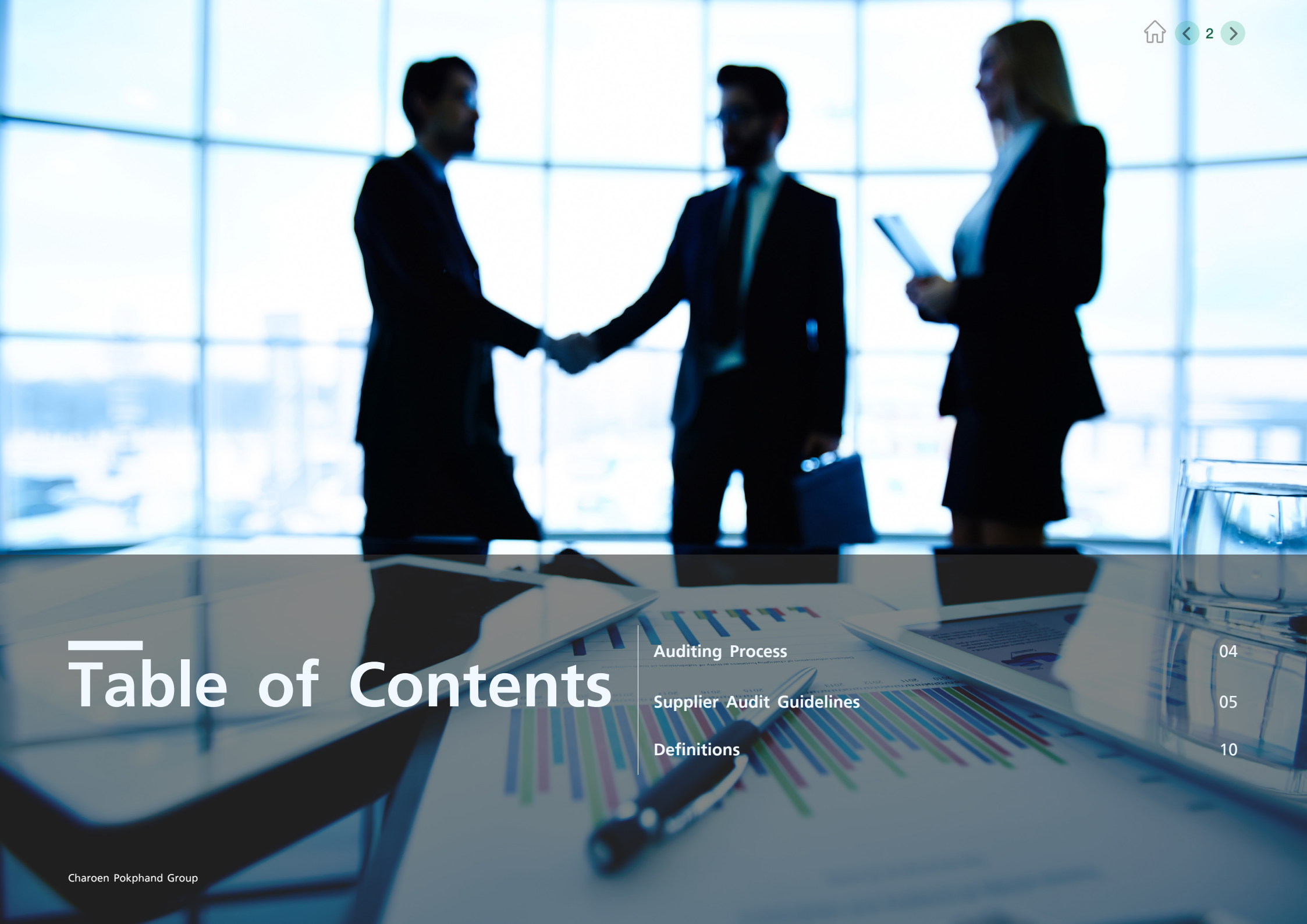

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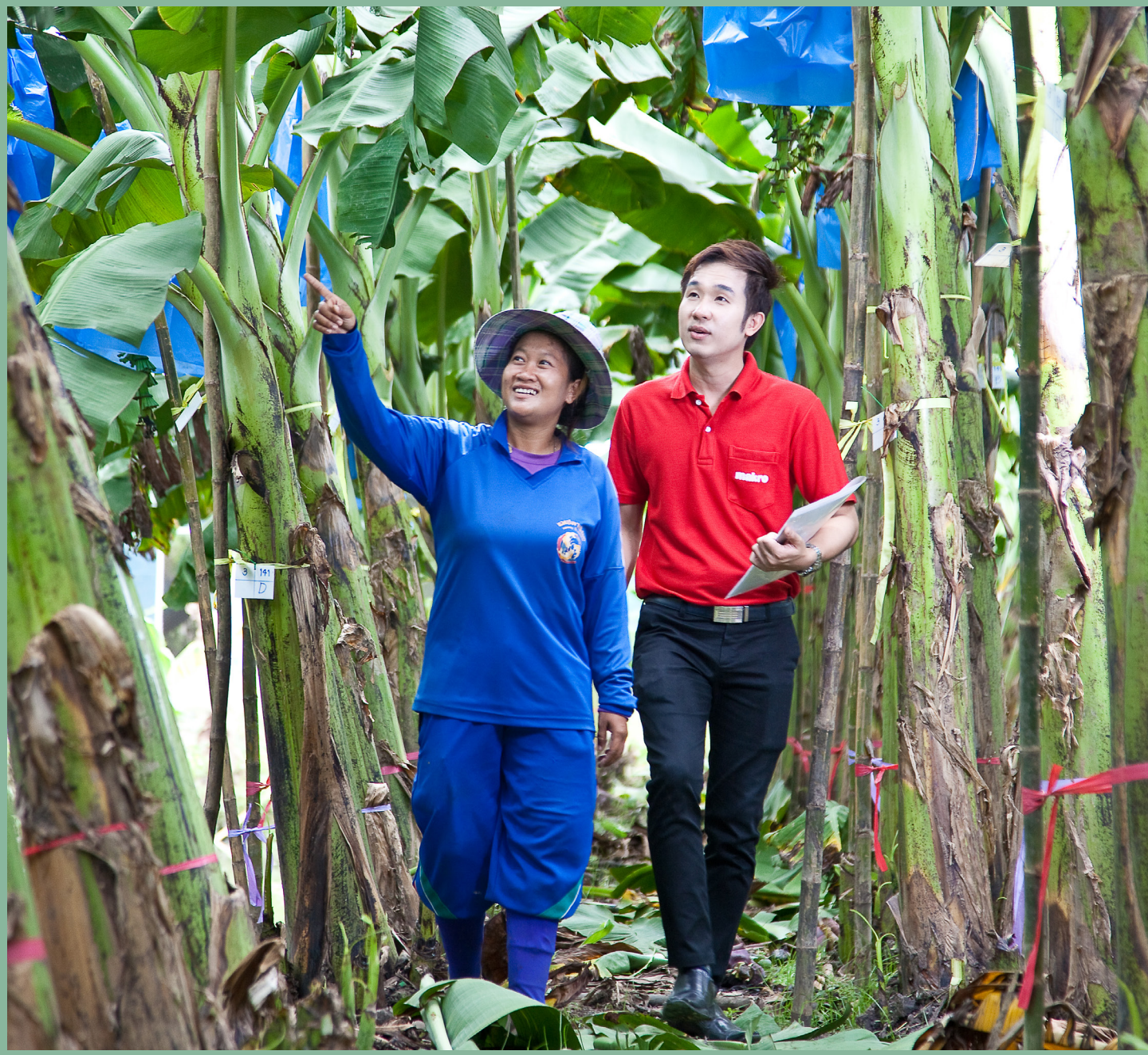
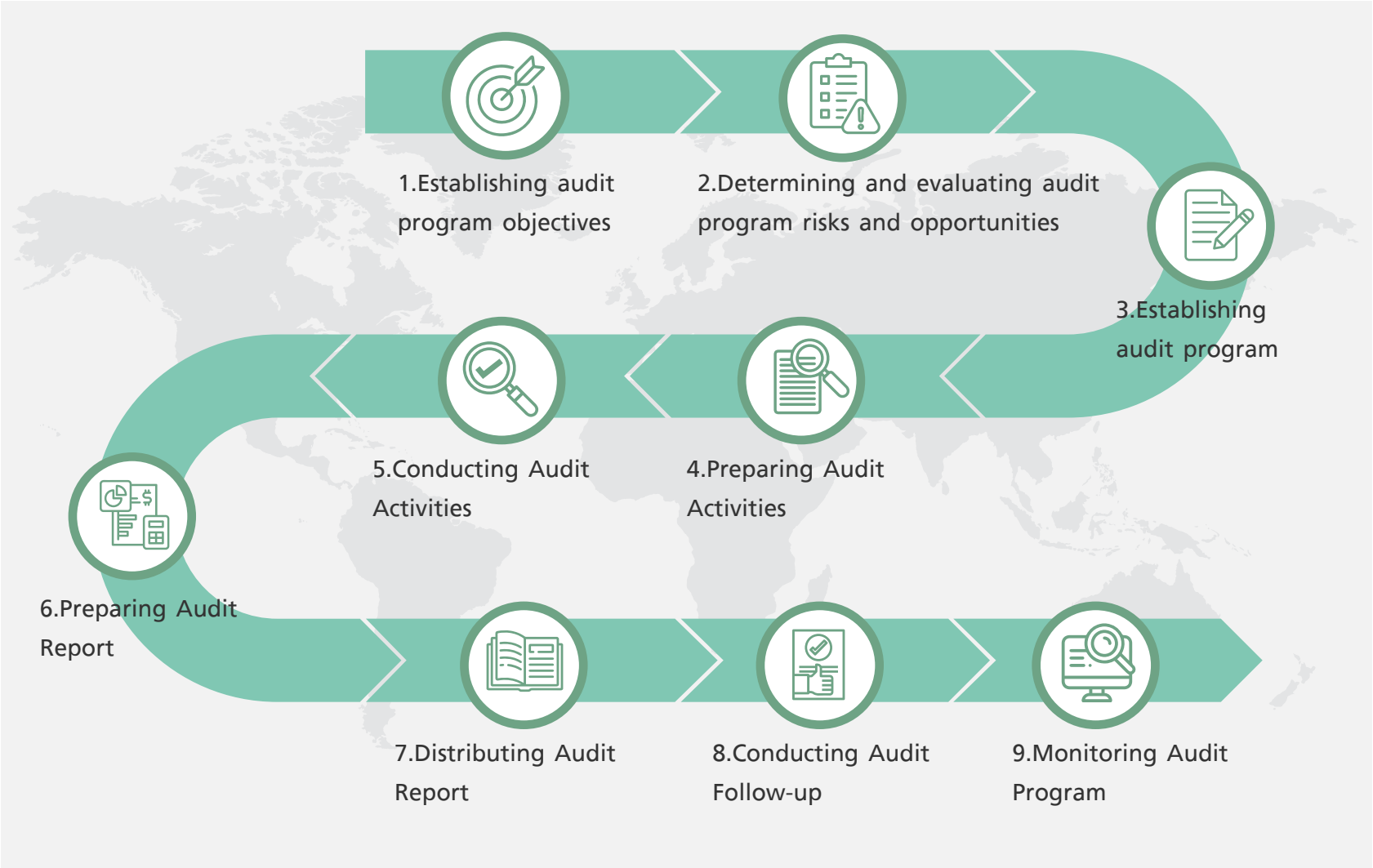
Introduction

Charoen Pokphand Group is committed to sustainable business growth alongside responsibility for communities, society, and environment.

In order to fulfill such intention, Charoen Pokphand Group attaches importance to responsible supply chain management while encouraging suppliers to operate with ethics and responsibility towards society and environment. Therefore, in an effort to enable efficient and effective monitoring of suppliers' performance, Charoen Pokphand Group has formulated the Supplier Audit Guidelines for relevant departments to adopt and implement in auditing and tracking suppliers' performance in accordance with the Supplier Code of Conduct. The audit results will help to further improve and develop suppliers' capacity in a sustainable manner.



Auditing Process



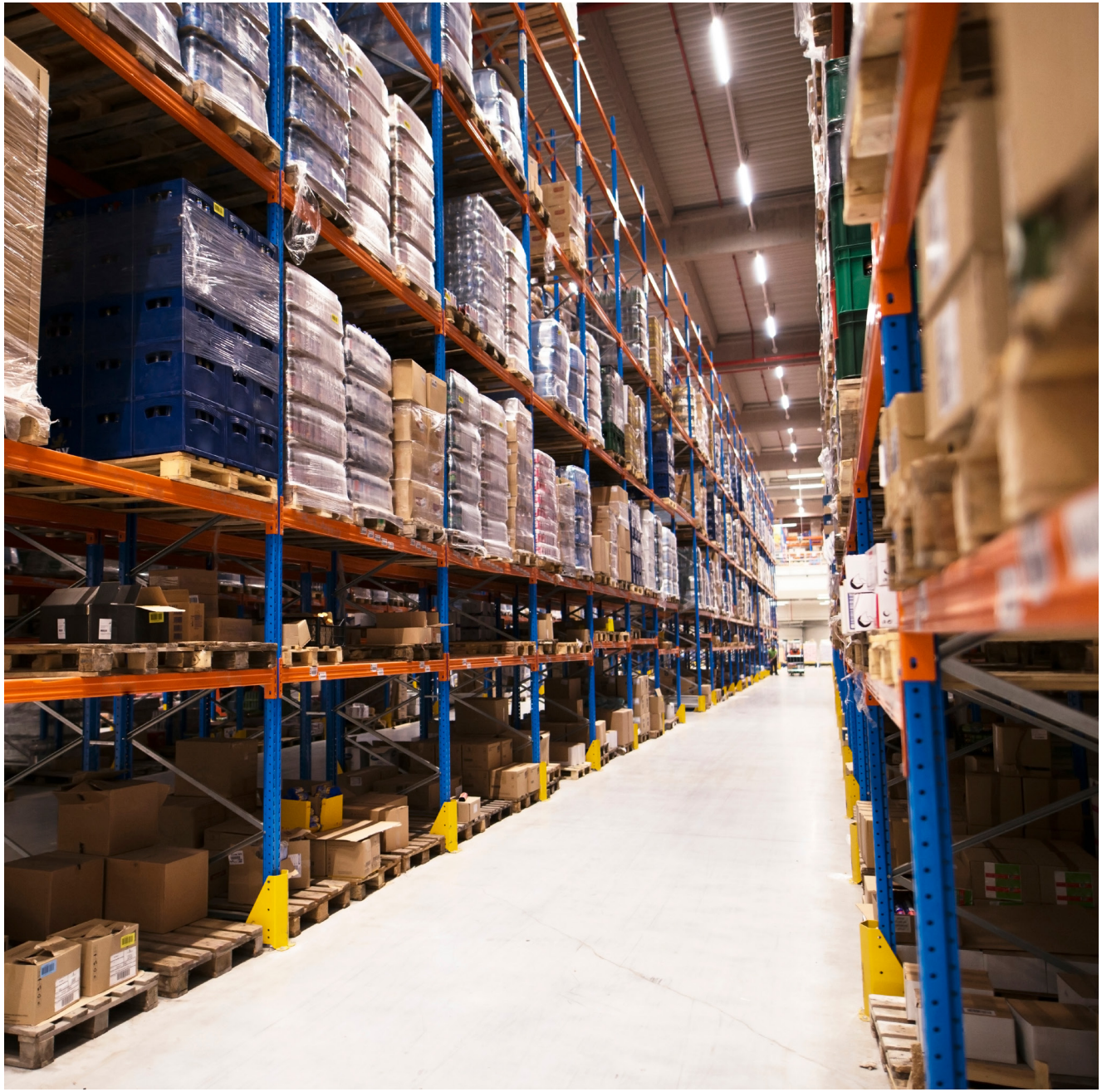
Supplier Audit Guidelines

1.Objectives

This document is intended to serve as a guideline to ensure that supplier audits are conducted effectively and in accordance with Charoen Pokphand Group's Supplier Code of Conduct.

2.Scope

This document provides guidance on the supplier audit process, starting from the stage of formulating the audit program, conducting audit activities, submitting the audit report to the supplier, and following up on corrective actions and supplier development.



3.Guidelines

3.1 Establishing Audit Program Objective

The organization should define the objectives of the audit program in order to control the process of planning and conducting audit activities. It should also ensure that the audit program is effectively carried out with objectives that align with Charoen Pokphand Group's strategic direction on sustainability, support the responsible supply chain management goal, and comply with the Supplier Code of Conduct.

3.2 Determining and Evaluating Audit Program Risks and Opportunities

During the audit, the organization should evaluate risks that may affect the audit program and the achievement of objectives. Potential risks include the audit scope, the audit period, the selection of the audit team, data security and confidentiality, the readiness and cooperation of the auditee, etc.

3.3 Establishing Audit Program

3.3.1 Formulate an audit program to assess the supplier's compliance with the Supplier Code of Conduct and the requirements of relevant rules and regulations on an annual basis or once every three years according to the supplier's level of importance and risks. The audit plan

1) All critical tier 1 suppliers
2) All critical non-tier 1 suppliers
3) All sustainability high-risk suppliers
4) All suppliers that failed the Supplier ESG Self-Assessment

3.3.2 Determine the scope of the audit program according to relevant objectives and known restrictions, e.g., the period of each audit, relevant management system standards or other criteria, legal and regulatory requirements, the availability of information technology and communications to support audit activities, industrial risks, and audit findings from the entire supply chain.

3.3.3 Select an audit team and determine the overall capabilities for audit activities by assigning appropriate roles, responsibilities, and authority. The auditors' qualifications may be considered based on education, past work experience, previous audit experience and training. The audit team that will evaluate the supplier should be composed of:

1) Representatives from the Safety,Occupational Health, and Environment Department
2) Representatives from the Human Resources Department
3) Representatives from the Compliance Department.
4) Third-party consultants or auditors, as necessary or appropriate

Roles and Responsibilities of Auditors

1) Understand the objectives, scope and criteria of the audit
2) Establish an audit plan
3) Conduct audit activities and collect evidence during the audit
4) Summarize the audit findings
5) Follow up on corrective actions of non-conformities
6) Develop an audit report

3.3.4 Coordinate and schedule all audit activities in the audit program.

3.3.5 Ensure the preparation and preservation of appropriate documented information as well as a record of the audit program.

3.3.6 Communicate the audit program to the supplier as appropriate.

3.4 Preparing Audit Activities

3.4.1 Review the audit plan. If there is a change in the objectives, scope or criteria of the audit, the audit plan or program should be modified, if necessary. Meanwhile, stakeholders and the supplier should be notified for approval, as appropriate.

3.4.2 Determine an effective means of conducting audit activities based on the specified objectives, scope, and criteria. The audit activities can be conducted on-site, remotely, or by using a combination of both methods. Their implementation should be appropriately balanced based on relevant risks and opportunities.

3.4.3 Understand the supplier's activities and prepare relevant necessary information for the audit, i.e., the audit criteria used as reference to determine conformity; this may include any of the following, e.g., policies, procedures and performance criteria, objectives, legal requirements, regulations, and the Supplier Code of Conduct.

3.4.4 Formulate an audit checklist.

3.5 Conducting Audit Activities

3.5.1 An opening meeting is held with the supplier's management and those responsible for the processes according to the audit scope and objectives. The lead auditor will introduce the audit team, clarify the audit objectives, inform the audit scope and method, explain the criteria of non-conformance, notify and confirm the audit plan, provide assurance on supplier data security and confidentiality, and schedule the closing meeting.

3.5.2 Observers may accompany the audit team with the approvals from the lead auditor and the supplier. They must not interfere with the audit process and must respect the security and confidentiality of the audit team and the supplier's information.

3.5.3 Perform audit activities as specified in the audit plan and take into account the results of previous audits and internal audits (if any).

3.5.4 During the audit, any need for changes to the audit plan should be considered appropriately and communicated to the supplier for acknowledgement.

3.5.5 During the audit, auditors collect relevant information by means of appropriate sampling, e.g., documents, employee interviews, observations, to compare evidence from multiple sources. Audit evidence leading to audit findings should be recorded.

3.5.6 Auditors review the audit findings and other appropriate information collected during the audit activities against the audit objectives.

3.5.7 Record audit findings. Individual audit findings should include conformity and good practices along with their supporting evidence, opportunities for improvement, and any recommendations to the supplier. The audit findings should also be classified, i.e.

1)Major non-compliance

2)Minor non-compliance

3)Potential improvement

4)Good practice

More information is available in the Appendix.

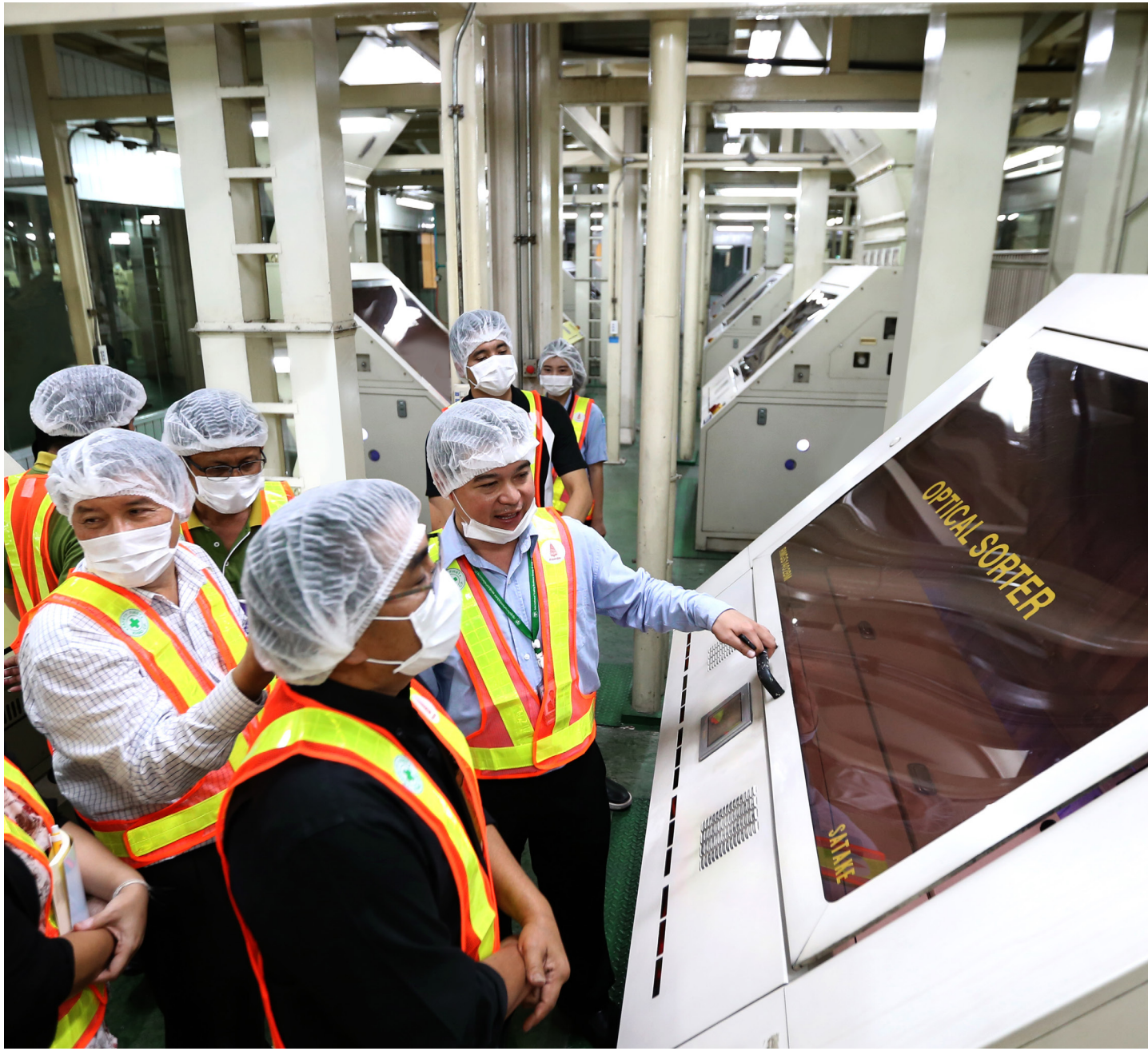
3.5.8 A closing meeting is chaired by the lead auditor and the supplier's management or the person responsible for the processes which have been audited, as appropriate. The topics of the closing meeting include:

1) Expressing appreciation for the auditee's cooperation.
2) Reviewing the scope and objectives of the audit.
3) Explaining the audit findings to the supplier and confirming reports of non-conformities and the date when the corrective actions will be completed.
4) Notifying the submission schedule of the audit report.

3.6 Preparing Audit Report

The lead auditor prepares the audit report according to the audit plan and should refer to the following:

1. Audit objectives
2. Audit scope, especially the identification of the auditee and the audited process
3. Identification of the audit team and participants
4. Date and location of the audit
5. Audit criteria
6. Audit findings and relevant evidence
7. Summary of audit findings
8. Statement regarding the level of compliance with the audit criteria
9. Summary of the audit process and good practices



3.7 Distributing Audit Report

The audit report should be issued within the time frame agreed upon with the supplier. The reasons for any delay should be communicated to the supplier.

3.8 Conducting Audit Follow-up

1) Follow up on the supplier's corrective action plan within 30 days from the date of issuing the report.

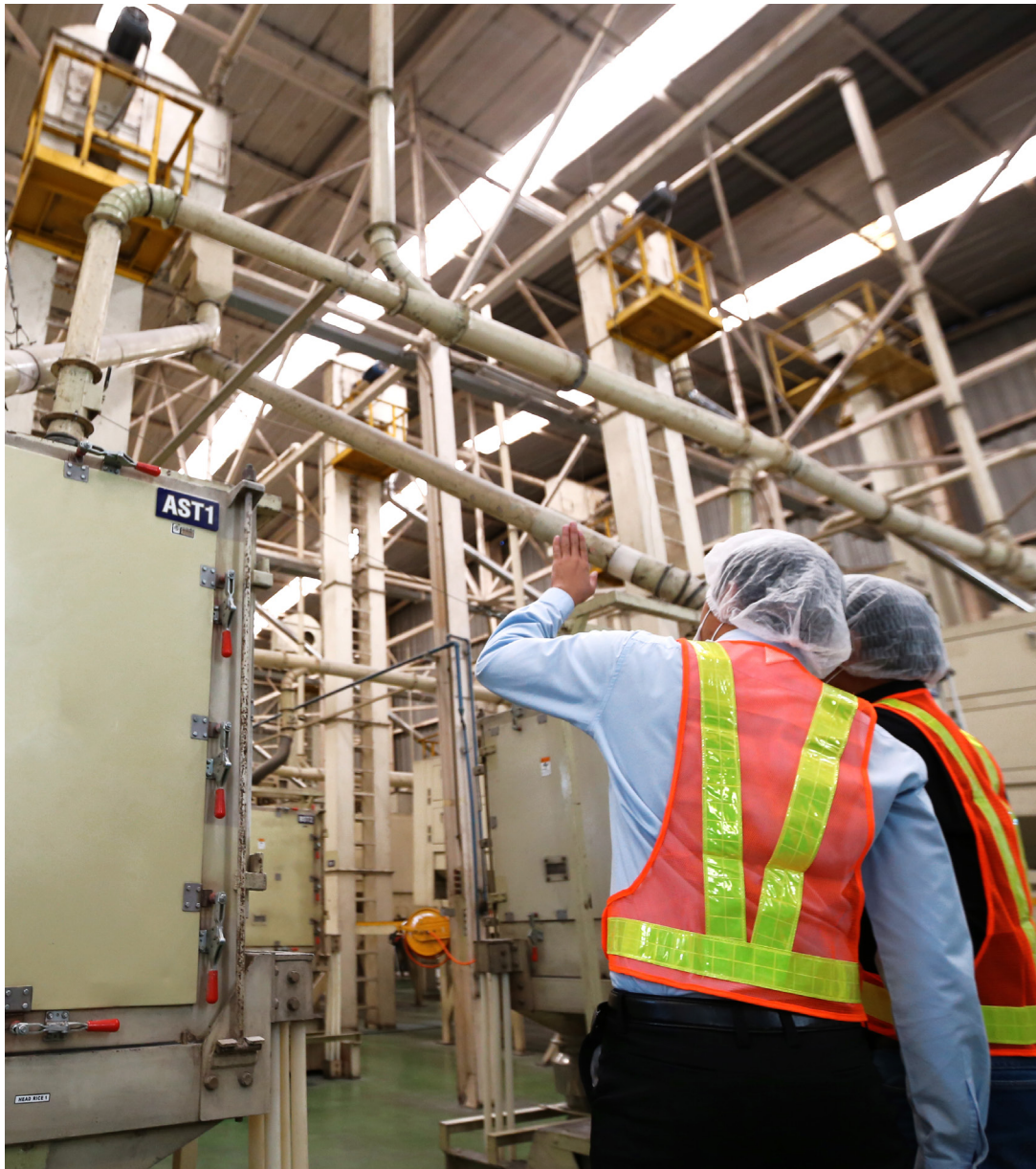
2) Follow up on whether the corrective actions specified by the supplier are effective in the prevention of recurrence. Summarize and evaluate evidence from the corrective actions. Consider concluding the non-conformity if the evidence is appropriate. However, in the case of inappropriate/incomplete evidence, the supplier should be informed to postpone the corrective measures. If the matter remains unresolved in the second follow-up, the management should be notified in order to determine further corrective measures.

3) The evaluation of the audit findings

Evaluation	Criteria	Actions
A	< 5 Minor NC	• Prepare a corrective action plan within 30 days. • Provide evidence that corrective actions have been implemented within 90 days. • Conduct on-site audit every three years.
B	≥ 5 Minor NC or 1 Major NC	• Prepare a corrective action plan within 30 days. • Provide evidence that corrective actions have been implemented within 90 days • Conduct on-site audit annually.
C	> 2 Major NC	• Prepare a corrective action plan within 30 days. • Provide evidence that corrective actions have been implemented within 90 days. • Conduct follow up audit on-site to monitor the supplier's corrective actions within 3-6 months. • Conduct on-site audit annually.

3.9 Monitoring Audit Program

Auditors should review the audit program to assess whether the objectives have been achieved. The findings from the review should be adopted to support future audit improvements.



Definitions

Definitions	Description
Audit	Audit is the systematic, independent, and documented process for obtaining objective evidence. It features an objective evaluation to determine the extent to which the audit criteria are fulfilled.
Auditor	Auditor is a person who conducts an audit.
Observer	Observer is an individual who accompanies the audit team but does not perform audit functions.
Audit Program	Audit Program is a schedule that determines the audit activities, timeline, and person responsible for each supplier audit.
Audit Scope	Audit Scope is the extent of the audit which generally includes organizational units, activities, processes, and timeline.
Audit Plan	Audit Plan indicates the supplier audit time according to the specified frequency.
Audit Criteria	Audit Criteria is a set of requirements used as a reference against which audit evidence is compared.
Audit Evidence	Audit Evidence is a record, statement, fact, or other information related to the audit criteria and verification.
Audit Finding	Audit Finding is the result of the evaluation of the collected audit evidence against audit criteria.
Audit Conclusion	Audit Conclusion is the outcome of an audit after consideration of the audit objectives and all audit findings.
Conformity	Conformity is the fulfilment of a requirement of the audit.
Non-conformity	Non-conformity is the non-fulfilment of a requirement of the audit.
Major Non-Compliance	Major Non-Compliance refers to non-conformity with one or more requirements of the management standard or a situation that casts significant doubt on the ability of the supplier's management system to achieve objectives.
Minor Non-Compliance	Minor Non-Compliance refers to non-conformity with requirements of the management standard but has no significant impact on the ability of the supplier's management system to achieve objectives.
Potential Improvement	Potential Improvement refers to a recommendation that will increase the efficiency of the management system in relation to the requirements of the standard.
Good Practice	Good Practice refers to a practice or procedure that leads the organization to success or excellence according to its goals with clear evidence of success that is documented and disseminated for implementation by internal or external agencies.

Charoen Pokphand Group Co., Ltd.

313 C.P. Tower 14th, 16th Floor, Silom Road, Silom, Bangrak, Bangkok 10500 Thailand

+66(0)-2766-8000

Email: prcpgroup@cp.co.th