



**RODD & GUNN®**

**SOCIAL AUDIT  
REPORT**

**FY21 + FY22**

# OUR JOURNEY

Since the beginning of our formal social compliance program in 2015, **RODD & GUNN** remained strongly committed to our factory auditing program.

In the two-year period since July 2020, **RODD & GUNN** commissioned a total of **20 FACTORY AUDITS** across **7 COUNTRIES**. All audits were carried out with the help of our independent auditing partner **SGS**.

## COVID-19

The **Covid-19 pandemic** brought many challenges for businesses and suppliers around the world. Heavy restrictions on travel, physical presence at our factories and limited auditor availability meant that our regular auditing activities experienced some disruption in that time. We worked closely with our auditing partner SGS to assess the associated risks of supplier audits in all regions and consequently carried out audits only where deemed absolutely necessary and feasible.

In some cases, we **temporarily accepted other independent reports** from our suppliers such as WRAP, SMETA or SA8000 in lieu of a regular **RODD & GUNN** audit.

One of our audits was conducted as a remote (virtual) audit, due to enforced travel restrictions at the time. In another case, we trialed an auditor fly-in solution to review a factory who was originally scheduled for an audit just as the pandemic hit and needed to be postponed.

Maintaining our audit program throughout the Covid-19 pandemic ensured we could continue to assess basic worker rights, such as accurate wages & compensation during periods of lockdowns / restrictions / factory closures, and ensure appropriate health & safety measures were in place.

# OUR METHODOLOGY

Our audit methodology remained consistent with previous years concerning all parameters, audit process and the rating system we apply. However, due to the disruptions experienced during the Covid-19 pandemic, the gap between audits extended to 3 years for some factories instead of the usual 2-year interval.

## AUDIT CHECKLIST

A key element of our social auditing program requires **regular review of our auditing checklist** and making amendments as needed. This ensures we stay up to date with industry best practice and that the information we capture is relevant to all due diligence we carry out throughout our supply chain.

Examples of some of the additions we have made can be found on page 7 (Health & Safety) and page 9 (FOA / Grievance Mechanism).

## OUR PARAMETERS AT A GLANCE

<b>AUDIT PRE-REQUISITE</b>	RODD & GUNN only work with factories who demonstrate full cooperation with our audit program and due diligence screening process
<b>ASSESSMENT CONTENTS</b>	Our checklist scans factories on local, national & international laws, in conjunction with our Code of Conduct & other brand specific requirements
<b>AUDIT TYPE</b>	On-site only for all new & initial audits. On-site or remote desktop review for follow-up audits
<b>AUDIT FREQUENCY</b>	Approx. every 2yrs, subject to meeting our performance expectations
<b>AUDIT DATE</b>	Semi-unannounced. We provide a four-week window to our factories during which the auditors arrive on any given day
<b>AUDITORS</b>	All SGS auditors are fully trained & APSCA accredited, speak the local language of the regions we audit in and collectively share many years of experience

## THE PROCESS

- **Step 1** - Contents of our Supplier Code of Conduct and Policies are reviewed and updated regularly to ensure industry best-practice is reflected. All suppliers, ongoing & new, are required to declare their commitment and full understanding of the requirements before proceeding with orders. We expect our suppliers to share our Code & Policies with their supply chain partners (e.g. approved sub-contractors).
- **Step 2** - New factories are scheduled for their first audit. Where available, we review and recognize other valid & credible 3<sup>rd</sup> party audits or certifications for the first 12 months. To avoid audit fatigue, we generally audit our factories on a 2-year schedule, unless risk indicators show that more or less frequent auditing is needed.
- **Step 3** - After the audit, we review the results and corrective actions are defined. We work closely with our suppliers to ensure we understand the root causes and each finding is addressed appropriately. In case of an audit revealing any critical findings, factories are required to undergo a follow-up audit to independently verify the corrective actions, unless compelling evidence for immediate correction is available.
- **Step 4** - We track & evaluate the performance of each supplier and periodically communicate our findings to senior management, shareholders and our board of directors. In the event where suppliers do not meet our social compliance requirements on a continuous basis we consciously consider the need for other approaches (beyond audit) or at the very last resort, exiting the business relationship.

## OUR RATING SYSTEM

Our factories are assessed on **12 key areas** of social, ethical and environmental standards.

Any non-compliant findings within the audit assessment are given a weighted rating of either **MINOR, MAJOR or CRITICAL** - depending on the severity and impact they have on the workers or on the environment.

The following table outlines how these ratings are applied and include some common examples.

Rating	Description	Examples
<b>CRITICAL</b>	Issues which pose an immediate threat to the health & safety of factory workers and/or the environment and therefore require urgent attention <ul style="list-style-type: none"> <li>• Serious human rights abuse</li> <li>• Lack of business ethics</li> </ul>	<ul style="list-style-type: none"> <li>• Full/Partial access deny</li> <li>• Blocked / locked fire exits or escape routes</li> <li>• Incomplete worker attendance records</li> </ul>
<b>MAJOR</b>	Any findings that are likely to have a negative impact on the medium-long term health & safety of workers, their rights or the environment <ul style="list-style-type: none"> <li>• General breach of workers' welfare and/or rights</li> <li>• Lack of legally required records</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of permits, certificates, reports</li> <li>• Lack of safety equipment</li> <li>• Excessive working hours</li> <li>• Inadequate benefits and/or compensation</li> </ul>
<b>MINOR</b>	Issues which pose no immediate threat or risk to the health & safety of workers or the environment <ul style="list-style-type: none"> <li>• Breach of legal requirement and/or RODD &amp; GUNN Code of Conduct that generate relatively little impact on workers' welfare and/or basic right</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of adequate and effective policy and procedure</li> <li>• Lack of communication and/or awareness training</li> </ul>

A **Corrective Action Plan (CAP)** is issued at the closing of each audit, and all necessary corrective actions, a responsible person/department and due dates for completion are agreed upon.

Our factories are issued with an **OVERALL AUDIT SCORE** ranging from **A (fully compliant) to E (not compliant)**. We use this information to track a supplier's progress, develop risk assessments and identify specific actions and opportunities in our supply chain.

The table below gives a basic overview of the audit scores & risk rating.

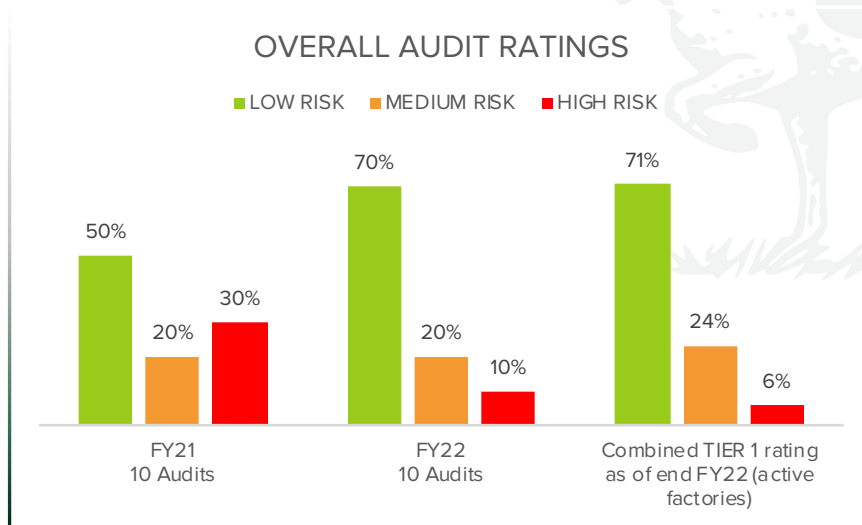
Score	Description	Risk
<b>A &amp; B</b>	Factory meets or exceeds local law, regulations and policy requirements. MINOR corrective actions are defined and addressed appropriately.	<b>Low</b>
<b>C &amp; D</b>	Factory meets some ethical policy requirements. MAJOR corrective actions are defined and monitored for ongoing improvement.	<b>Medium</b>
<b>E</b>	Factory fails some ethical policy requirements. A CRITICAL action plan has been defined & corrections are verified through follow-up on-site audits	<b>High</b>

It is important to highlight that **any number of critical findings** in an audit report automatically results in a **NON-COMPLIANT (E)** factory score.

# SUPPLIER PERFORMANCE

The insights gained from our audits assist us in understanding each of our supplier's strength and weaknesses, along with the geographical differences, and play an important role in assessing current and future risks within our supply chain.

The following graph provides a snapshot of our factory ratings based on individual performances over the past two-year audit cycle.



Collectively, these 20 audits represented approximately 60% of **RODD & GUNN'S TIER 1** supplier pool. The remainder of factories are awaiting their first audit through SGS and are temporarily monitored via supplier-led 3<sup>rd</sup> party audits such as WRAP and SMETA.

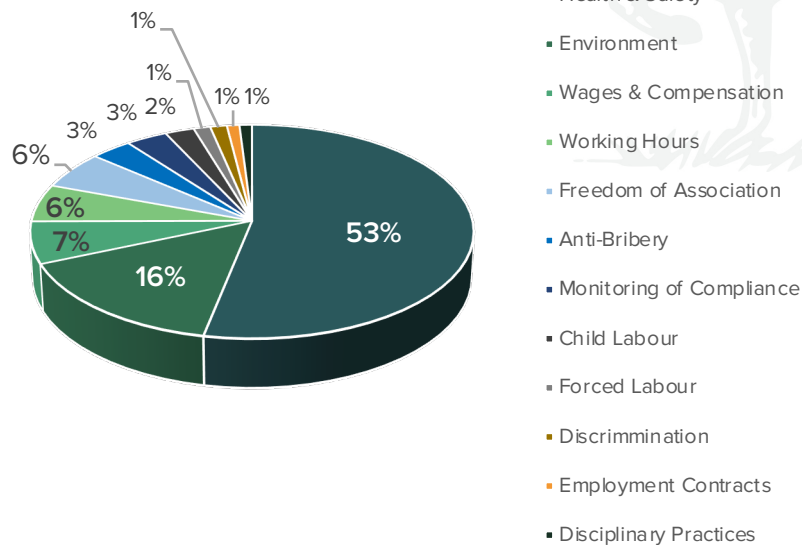
High-risk supplier ratings from the **FY21 auditing year** are predominantly attributed to poor health & safety standards, such as damp walls, locked/blocked escape routes and insufficient attendance records. These incidences only reflect a very small portion of overall findings and are addressed immediately post-audit through our CAP follow-up. Nonetheless, any number of critical findings automatically lead to a high-risk supplier rating until an official & verified follow-up indicates otherwise. As of publishing this report, all high-risk factories from the FY21 & FY22 auditing years no longer produce orders for **RODD & GUNN** due to changes in demand, supplier consolidation and persistent quality & delivery challenges.

Performance results in the FY22 auditing cycle are more consistent with those prior to Covid-19 as well as the combined audit rating for our TIER 1 supply chain (active factories to date), where **71% of factories are rated as low risk**.

# KEY FINDINGS

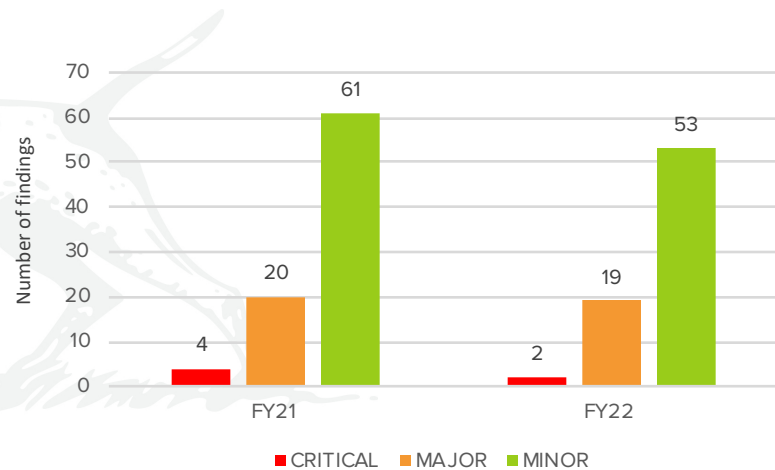
The combined insights from our audits provide useful information on the conditions in our supply chain and also help bring the nature of non-compliances to light. Below is an overview of the most common non-compliances found over the past two years.

- **HEALTH & SAFETY – 53%**
- **ENVIRONMENT – 16%**
- **WAGES & COMPENSATION – 7%**
- **WORKING HOURS – 6%**



## HEALTH & SAFETY – 53% of all findings

This area has a very strong presence in our audit checklist, with a much higher number of requirements for factories to fulfil than any of the other key areas (69 out of 188 checkpoints - 37% of the assessment).

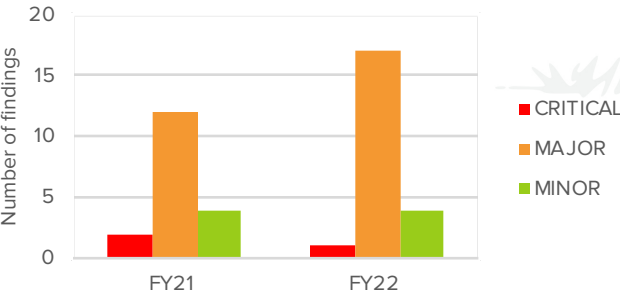


Thus, **HEALTH & SAFETY** remains the most prevalent category for non-compliances in our factories, although the majority of findings were rated as minor issues (71.7%) and only **3.8% of all H&S related findings in the past two auditing years were critical in nature.**

Of all Health & Safety related issues, **FIRE SAFETY** is historically the number one area for most CRITICAL & MAJOR non-compliances. Critical findings often appear in a factory's **very first audit** and are usually linked to locked safety exits or blocked escape routes. Over time, factories improve safety practices and establish better systems to achieve a higher standard.

In FY21, we introduced further requirements for smoke detectors and fire alarm systems into our audit checklist. These are:

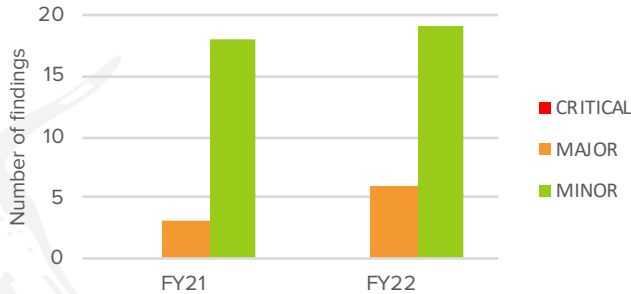
- Mandatory smoke alarm requirement for all factories, regardless of local laws
- Audible testing of fire alarm systems on audit day
- Linkage of fire alarm systems between all floors of a multi-story building



With the introduction of these requirements, a higher number of fire-related issues were detected in our recent audits as expected. All factories with a CAP in place are working towards making necessary improvements.

## ENVIRONMENT – 16% of all findings

Similarly to previous years, environmental compliance remains an area for improvement for many suppliers we onboard, although the vast majority are MINOR in nature. This is in part due to the varied forms of regulations and policy requirements that exist in different regions.



Examples of non-compliances that are commonly detected during first audits are **incomplete policies and execution, missing environmental impact analyses, including energy surveys and efficiency plans**. On a geographical basis, our factories in Mauritius account for having the highest number of environmental shortcomings however, the same factories show great commitment to raising their internal standards and are working to implement and maintain the necessary corrective-actions.

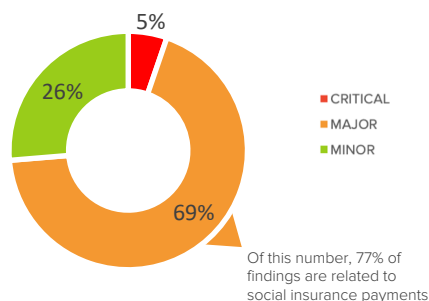
**NO CRITICAL** findings were detected in any of the audits we have carried out in our supply chain since 2015.

## WAGES / COMPENSATION and WORKING HOURS

Wages and working hours are an key indicator for worker wellbeing and thus, the information from our audits provides assurance and additional insights to the working conditions in our factories. The importance of ensuring that our workers are paid correctly, and that maximum weekly working hours **meet ILO standards**, was highlighted even further over the course of the Covid-19 pandemic.

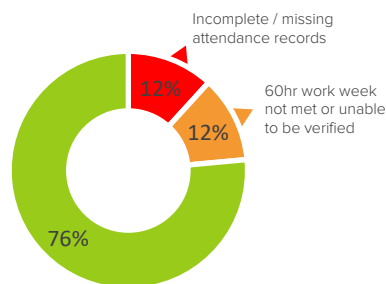
In one particular case, a SGS audit brought to light a payment discrepancy for two workers who were unable to return to work due to lockdowns & restrictions at the time. Our factory promptly made necessary corrections and this was independently verified in their follow-up audit.

WAGES & COMPENSATION  
(2 YEARS)



An area which remains more difficult to address are the legally required social insurance payments which, on occasion, don't meet the criteria in certain regions (77% of all major findings, predominantly due to rural migrant worker employment in factories in China).

WORKING HOURS  
(2 YEARS)



This is a systemic challenge that cannot be addressed by industry or brands alone. Nonetheless, we monitor this area closely and continue to encourage our suppliers to educate workers on the benefits of insurance.

Overall, **no involuntary overtime** has been observed in any audit and **all minimum wage requirements are fulfilled in line with local laws**. 76% of all working-hour related findings are minor in nature. Our factories' ability to keep accurate payroll records is understood as being a standard requirement however, from time to time we still find insufficient records and these are addressed with high priority (CRITICAL).

## FREEDOM OF ASSOCIATION

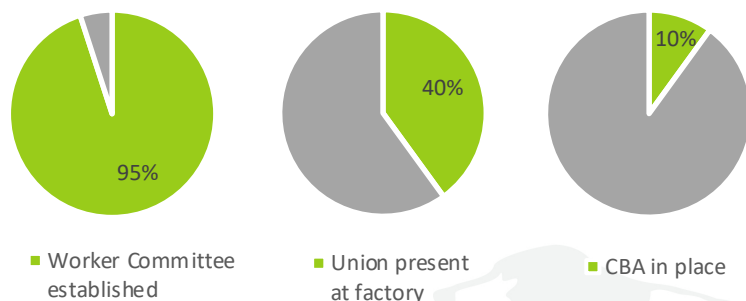
A core element in our auditing is to ensure each worker's rights to form and join worker's organizations, such as trade unions or worker committees, are respected.

It is considered a **fundamental right at work** and the prerequisite for sound collective bargaining and creating positive social impact. In regions where union activity is restricted by law, we assess factories for other parallel means of worker representation (must be worker-led and independent of management).

As of FY22, we request that **union and/or worker committee representatives are present during each audit** to help strengthen communication between the factory, workers and **RODD & GUNN**. Where this is not the case, we include a recommendation in the factory's CAP for remediation.



The below gives an overview of the percentages of worker committees, unions and CBA's across all audited factories in FY21 & FY22.



Whilst our influence on union and CBA uptake is restricted, we are continuously working with our factories to ensure a parallel means of worker representation is available (one of our factories is currently remediating worker committee within their CAP).

## SPOTLIGHT – WORKER GRIEVANCE MECHANISM

In early 2020, we began distributing our Worker Grievance Policy to all Tier 1 suppliers to provide an avenue for workers wanting to address any grievances or concerns directly with **RODD & GUNN**. As part of assessing the effectiveness of the policy, we since included new checkpoint items for each new audit:

- Auditor verifies our translated CODE and GRIEVANCE POLICY is displayed in common areas of the factory
- Auditor checks accessibility of policy to workers and possible privacy concerns (e.g. accessing policy without feeling watched)

- Auditor verifies training on our Grievance Policy is provided to workers
- Auditor informs worker/union representatives of the policy and directly with workers in interviews

With these changes, our audits help to highlight any shortcomings in this area. **35%** of all non-compliances in this category are related to ineffective grievance mechanisms, reporting and worker training.

We engage with factories to address the findings as part of their CAP (corrective action plan) and continuously reassess the effectiveness of the systems we implement.

# FINAL WORD

**RODD & GUNN** are proud to be partnering with suppliers who continuously work with us on improving management practices and overall working conditions. As of finalising this report, **65% of non-compliances** have been addressed in the CAPs, and we continue to monitor and track all ongoing progress.

We recognise that our work doesn't end here and that there is always more to accomplish for brands, industry bodies and governments alike. Our long-lasting supplier relationships and open channels of communication will continue to play a key role in enabling synergistic change.