

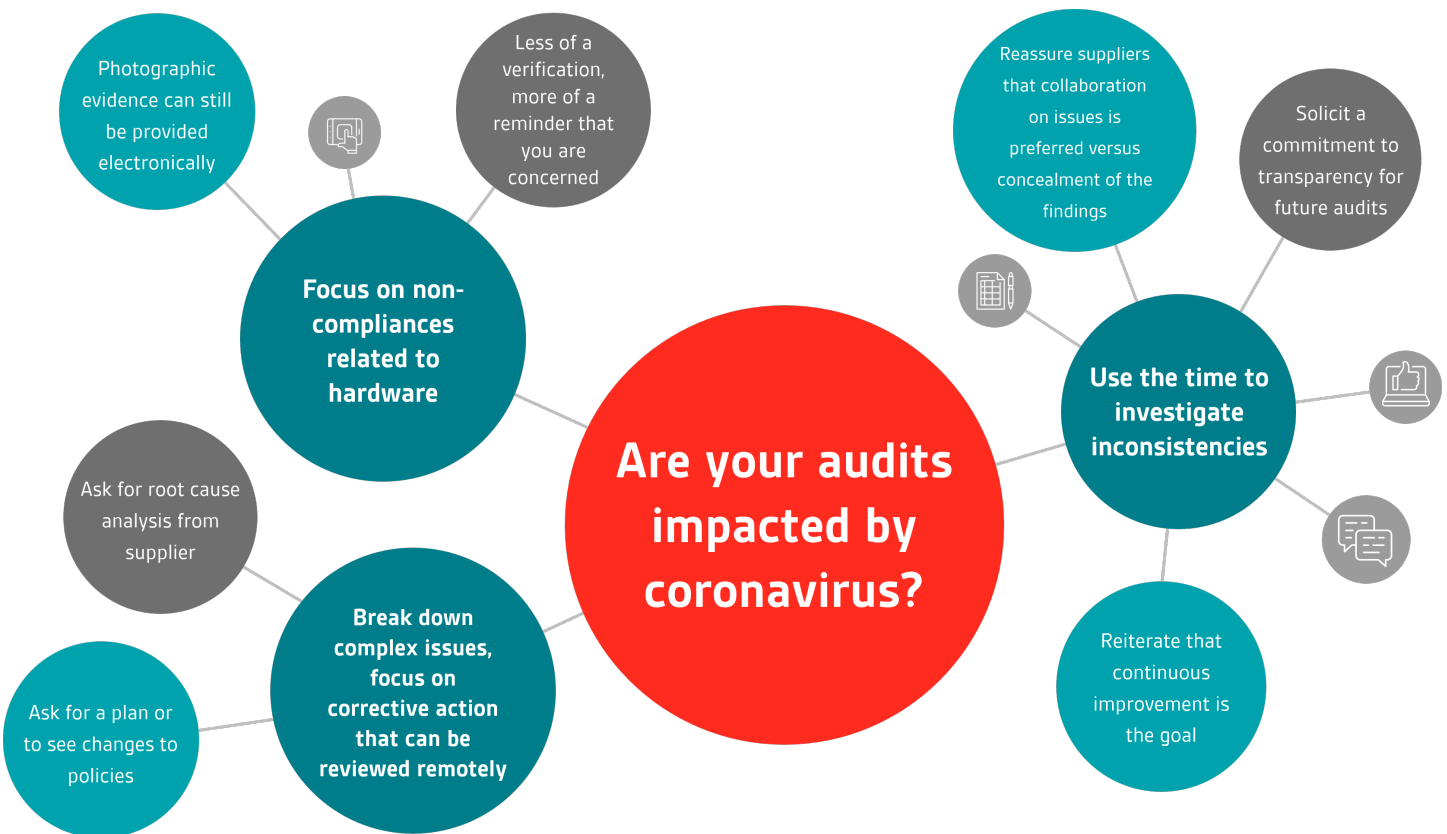
NOVEL CORONAVIRUS (2019 NCOV) UPDATES & AUDITING INSIGHTS

February 14, 2020

- Earlier this week, the World Health Organization (WHO) gave the coronavirus, which has reportedly sickened over 64,000 people worldwide, an official name: COVID-19.
- China has struggled to get back to work over the past week as the extended Lunar New Year holiday drew to a close and attempts to contain the virus continued.
- The number of reported coronavirus cases spiked earlier this week when the definition of a confirmed case was expanded to include "clinically diagnosed cases based on symptoms and exposure," instead of only "lab-confirmed cases."
- While some reports suggest that some of China's manufacturing plants reopened throughout the week, many have still been unable to resume production at normal capacity, and others have further extended dates to resume operations.
- Companies are employing various types of checks and restrictions on employees, in some cases reportedly requiring temperature checks at the facility or the quarantine of workers arriving from out of town.
- Many local governments continue to impose varying levels of travel restrictions, as well as requirements for quarantining returning migrant workers.
- There are ongoing shortages of face masks, which may be necessary for some employees to resume work in factories or other facilities.

Insights on Remote Collaboration Auditing

Due to the 2019-nCoV outbreak, there has been a stoppage of social, environmental, and security audit activity. Audit firms have canceled plans and have prevented auditors from traveling in order to protect them from potential exposure to the virus. Companies are looking at how to keep programs running despite this disruption. During this time, companies should consider focusing on working with factories on open non-compliances.



Ideas for remote collaboration with supply chain partners in this respect are as follows:

- For non-compliances related to hardware, such as health and safety, and for permits, **request photographic evidence from factories** to show that these issues have been resolved. For health and safety, it may be difficult to evaluate if replacement signage is fixed or a different sign than the missing one - the point here is to ask for the factory to ensure that they have taken action on the findings, so this is a reminder that you are concerned about this, and less of a 100% verification that this issue has been fixed.
- For non-compliances that are complex and would require employee interviews, break down the issues and see what aspects of corrective action could be reviewed remotely:
 - For all issues, as part of the corrective action process, **ask for root cause analysis**. Use this analysis to ask the factory to identify the "root of the root" of what happened and address it appropriately.
 - For working hour issues, do not accept "we will reduce working hours" as a corrective action. Instead, **ask for a plan** on how this will happen. Will the factory increase productivity, and how? Will efficiency be increased? Who will support this? Will additional staff be hired? What is the plan for recruitment and onboarding? For new people that will be hired, what is their expected contribution to productivity? What are the targets for the department, and how will this contribution help to eliminate excessive overtime? With reduced working hours for the remaining staff, will there be concerns about decreases in wages? How will the factory deal with this?
 - For issues related to discipline, grievance, and other points in human resources management, **request to review the changes in the policies** that have been made in order to address the issues found during the audit. Ask about which sections of documents have been changed, and for the new language. Ask for proof that this has been communicated to the work force, such as pictures of bulletin boards, photos of training sessions, training records with dates, content, and signatures of attendees.
- **Take the time to explore non-compliances** related to inconsistencies or possible audit fraud. If employees reported Sunday work or work in the evenings that did not appear on working hour records, check timecards and follow-up. Ask the factory to share the full picture related to lacking rest days and excessive working hours and reassure them that collaboration on these issues is preferred. Solicit a commitment to transparency for future audits, and a real plan to resolve the issues found, even if the plan timeframes are much longer. Reiterate that continuous improvement is the goal.

ABOUT FRED WAELTER

Fred has worked with the topics of supply chain social accountability and security for more than 15 years. He has extensive field experience conducting factory audits and leading special investigations, and has also set up new programs for retailers and brands in Asia, Europe, and North America, and consulted clients on areas of potential improvement in their existing programs. Relying on the experience, Fred provided a "view from the field" regarding audit protocols and auditor competency for a number of initiatives, including amfori, ICS, and the Sedex Stakeholder Forum, and also held a seat on the Executive Board of the Association of Professional Social Compliance Auditors (APSCA). Fred has an undergraduate degree from Georgetown University in Washington, DC, USA with a triple major in Chinese Language, German Language, and International Business; and also holds an MBA in International Business from National Taiwan University. Fred is fluent in English and Mandarin Chinese, has intermediate proficiency in French, German, Japanese, with notions in Cantonese, Korean, Russian, Spanish, Serbian, Taiwanese, Thai, and Vietnamese.



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About BSI SCREEN Intelligence

Supply Chain Risk Exposure Evaluation Network (SCREEN), is BSI's web-based, comprehensive global supply chain intelligence system. SCREEN is the most complete, publicly available Supply Chain Security, Corporate Social Responsibility, Food Safety/Fraud, and Business Continuity intelligence and analysis resource used to measure country level risk factors through BSI's 25 proprietary country level supply chain risk ratings. SCREEN's unique, proprietary global supply chain risk data and analysis helps organizations identify and understand where their supply chain risks exist. SCREEN generates trade interruption updates, BSI-authored special reports on major disruption incidents and trends, countermeasure programs, and risk mitigation best practices to help protect supply chains worldwide. SCREEN's intelligence provides organizations with full transparency of country risks and helps them to make intelligent risk-based decisions that drive resilience.

Interactive Risk Maps

Each proprietary risk indicator is conveniently displayed for over 200 countries through SCREEN's global risk mapping views. For every indicator, a country is assigned a rating of Low, Guarded, Elevated, High, or Severe. This rating system allows users to quickly identify and categorize the threats to their supply chain and address them quickly.

Automated Notifications

SCREEN provides users the ability to stay current and up to date with breaking news and changing conditions around the world that impact the integrity of their supply chain. Users are able to subscribe to the notifications for specific locations and subject areas that concern them the most.

Custom Report Builder

SCREEN's custom country report builder provides users with more control over the areas that are represented in the report. Users can easily pull and compare reports for multiple countries, threat assessments, and commodities tagged throughout the SCREEN system instantly.

Spotlight News

SCREEN's Spotlight News provides data and analysis on the most pressing global incidents on a daily basis. Each update encompasses a general summary of the incident and BSI's own analysis of the incident. The analysis provides the risk rating of the associated country and the explanation of the rating to help you better understand the country level threats and trends.

Custom Intelligence Services

BSI is now offering custom intelligence specific to your organization's supply chain. This innovative feature allows us to deep-dive into geographies, commodities, and subject areas that fit your needs and create custom reports, threat ratings, and analyses. For more information on these solutions and how they can benefit your organization, please contact our team at supplychain@bsigroup.com.

Additional Services & Solutions

Supplier Compliance Manager (SCM): BSI's automated self-assessment and audit analysis solution that quantifies and tracks supplier risk and compliance through various assessment methods to ensure your supply chain, brand, and reputation are protected.

Advisory Services: BSI's experienced risk management professionals leverage their knowledge and SCREEN intelligence to help organizations effectively identify, manage, and mitigate risk and develop robust management programs.

Training Services: Our customizable training services help develop a deeper understanding of supply chain security, corporate social responsibility, food safety, and business continuity risks and how to quickly respond and proactively manage them.

Auditing Services: Our services provide organizations with complete visibility into their suppliers' practices and procedures worldwide. Our audits provide your organization cost-effective assurance that your suppliers are not exposing your brand.



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