



Fig Leaf for Fashion

How social auditing protects brands and fails workers

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BRIEFING - SOCIAL AUDITING IN THE GARMENT INDUSTRY

BRIEF BACKGROUND

Globalisation of the garment industry from the 1980s onwards led to the outsourcing of production and complex global supply chains, with a focus on price rather than labour conditions. It did not take long before activists and journalists began to expose labour rights violations in the supply chains of well-known brands. In response, brands developed unilateral Codes of Conduct containing labour standards that supplier factories should abide by. These were monitored by auditing firms, who generally had little experience in the garment industry. This led to fatal shortcomings which has made the system not only insufficient at detecting and remedying issues, but even a contributing factor in the continuation of labour rights violations around the world. The failings of the corporate social auditing system are exemplified by numerous fatal disasters, as well as the continuation of systemic workplace harassment and abuse in factories under the supposed scrutiny of these monitoring systems.



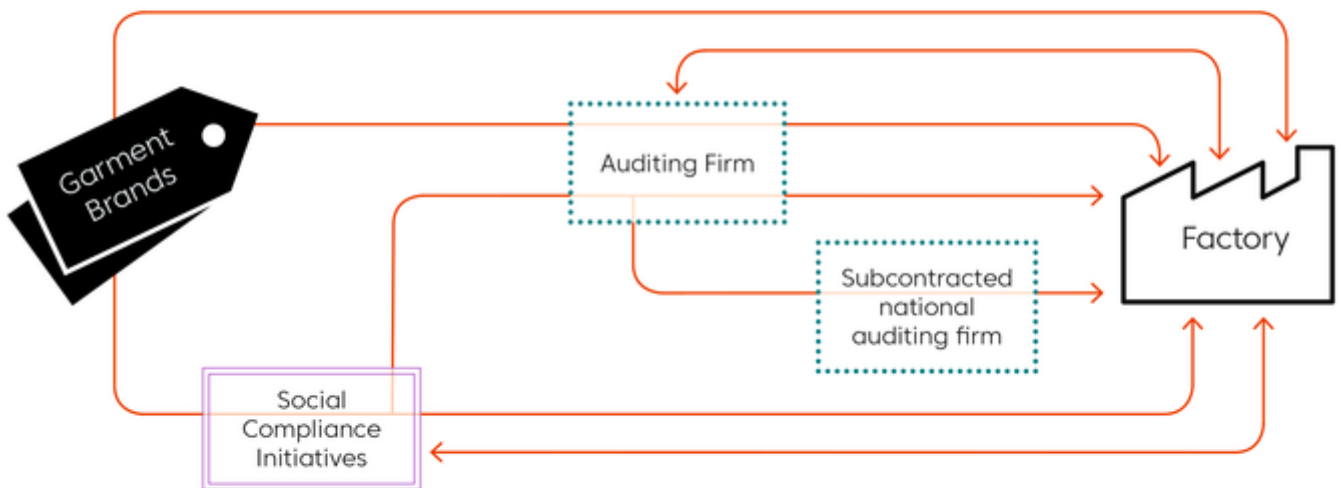
SOCIAL COMPLIANCE INITIATIVES

	SAI/SAAS (1997)	WRAP (2000)	FLA (1999)	AMFORI BSCI (2003)
What do they do?	Development and maintenance of SA8000 standard. Accreditation of auditors (SAAS) Training (SAI) Projects on working conditions (SAI)	Certification of factories; training of auditors	Development and accreditation of compliance programmes for brands and suppliers in garment and footwear sectors	Auditing on compliance with amfori BSCI code of conduct; Training of auditors; Other services to members
Coverage	- 67 countries - 4108 factories - 2m workers - various industries - social standards only	- 38 countries - 2722 factories - 2.4m workers - apparel & footwear only - social standards & environment	- 84 countries - 4750 factories - 4.6m workers - various industries - social standards only	- 42 countries - 62,564 factories - amount of workers unknown - various industries - social standards & environment (BEPI)
Revenue	3,086,781 USD (2017)	3,738,359 USD (2017)	9,681,596 USD (2017)	13,844,000 euro (2019)
Transparency	Public factory list here , no public auditing reports.	Public factory list here , no public auditing reports	Assessments , no factory information yet	No transparency
Members	SAI has a corporate membership unrelated to SA8000	No membership	59 brands, 1000s of licensees	2,414 members (companies & associations)
Notable cases of negligence	Ali Enterprises (2012); Fibre & Fabrics (2006); Gokaldas (2012)	Garib & Garib (2010); Ali Enterprises (2012); Avandia (2005-2011); Gina (2006); Zhongtex (2014)	Hansae (2015-2016); Jerzees de Choloma (2008); PT Kizone (2010); Pou Chen (2016)	Rosita Knitwear (2012); Rana Plaza (2013); Tazreen (2012); Multifabs (2017)

SOCIAL AUDITING FIRMS

How social auditing works

Brands conduct social audits to uncover labour rights violations in complex supply chains. Social auditing chains themselves are however equally complex. They can take many different forms, from direct monitoring to complex structures that might further deflect responsibility.



To address risks of labour rights violations in their supply chains **brands** have come together in **social compliance** initiatives to set common standards. These **initiatives**, as well as brands directly, turn to **auditing firms** to assess whether these standards are being implemented on the ground.

SOCIAL AUDITING FIRMS

- Originated as inspection organisations in 19th century (Bureau Veritas, TÜV, RINA, UL, SGS) or as more recent responses to the garment industry's growing demand for factory inspections around the world (Elevate, ALGI).
- Auditing firms are commercial companies catering to the needs of their clients, this means providing buffers between supply chain issues and the reputation of brands. Risk-management and protection of brand image seems to trump detecting and remedying actual workers' rights violations.
- This leads to a lack of transparency and a system in which nearly all audit reports remain confidential. Making the audit reports public would benefit the workers that this system claims to protect.
- The corporate social auditing system has become a multi-million (UL, RINA) and multi-billion (Bureau Veritas, TÜV Rheinland, SGS) dollar industry in reputational management. It has experienced considerable growth in the last decade and continues to do so, with brands spending the majority of their ethical sourcing budget on services offered by these companies.



CASE STUDIES OF FAILED AUDITING

Ali Enterprises, Pakistan (2012): The Ali Enterprises Factory burnt down just three weeks after being awarded SA8000 certification upon inspection overseen by RINA. At least 250 workers were killed. The audit failed to notice that the factory had a number of glaring safety defects.

Rana Plaza, Bangladesh (2013): More than 1,134 workers in five factories were killed when the Rana Plaza factory collapsed. Factory audits by TÜV Rheinland, under the oversight of Amfori BSCI, failed to notice the safety defects (or child labour) in the factory and even stated that the building was of “good construction quality”. Similarly, when Bureau Veritas audited another factory in the building it overlooked multiple obvious building violations.

Multifabs, Bangladesh (2017): A boiler explosion in the Multifabs factory in 2017 illustrated that TÜV Rheinland and Amfori BSCI had not learned their lessons from Rana Plaza. Their audit failed to highlight a broad range of safety defects, even though these had been previously publicly reported on by the Accord on Fire and Building Safety in Bangladesh.

Hansae, Vietnam (2015-2016): After two worker strikes protesting abusive working conditions at the Hansae factory, Worker Rights Consortium uncovered a range of labour rights violations in the factory, including wage theft, excessive factory temperatures, verbal harassment and abuse of workers, denial of legal entitlement to sick leave, forced overtime, and the firing of pregnant workers. Over 25 factory audits during 2015, carried out by firms including SGS, Elevate, Bureau Veritas, and UL, had failed to detect and address these violations, found by WRC a year later.

Top Glove, Malaysia (2017-2018): A range of labour and human rights abuses were uncovered in rubber glove manufacturer Top Glove’s 40 factories, including forced labour, debt bondage, excessive overtime, exorbitant recruitment fees, and the systematic confiscation of passports from migrant workers. Nonetheless, the factory was audited and certified by firms and programmes including UL, Bureau Veritas, SGS, SA8000, and Amfori BSCI. Auditing firms and social compliance initiatives have not suffered long-term effects from these failures, but instead continue to be profitable multi-billion dollar companies.

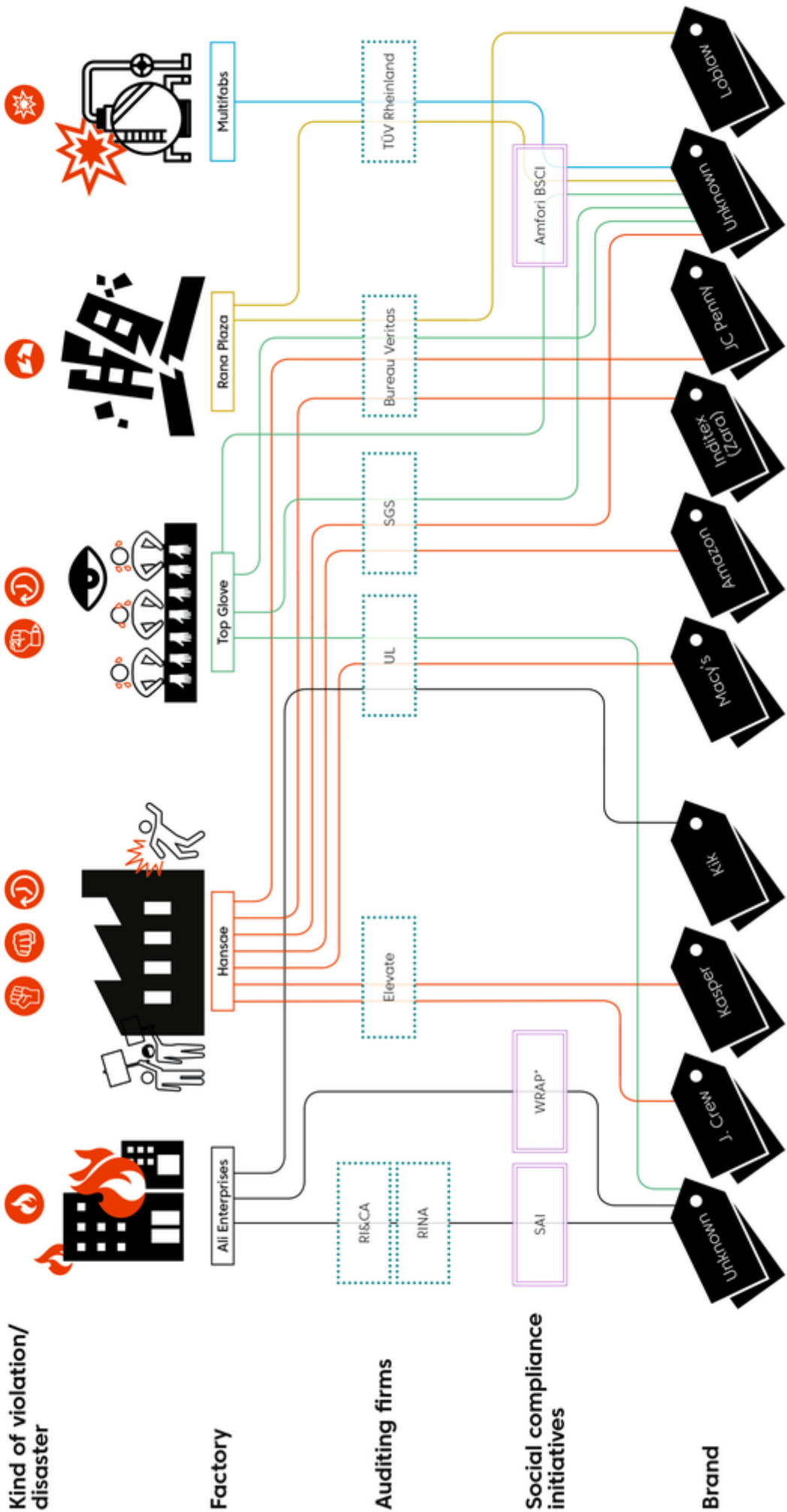


Hansae - WRC

Social auditing:

a complex web of responsibility

Factories are audited, certified and overseen by an amalgam of auditing firms and social compliance initiatives. Even a simplified representation of the four case studies featured in our report shows the complexity of relations in the social auditing chain and how many actors appear to have looked away in factories with clear labour rights violations



This infographic shows a simplified version of auditing relationships of the four case studies featured in our report. Because inclusion of all involved brands and auditing firms would make this infographic unreadable it leaves out several actors. The omissions do not indicate diminished responsibility. Due to the lack of transparency and governmental oversight of the garment industry, it is impossible to know all the brands and other actors involved in these social auditing failures.

*WRAP's certification of Ali Enterprises expired a year before the fire, the last certification audit took place in November 2010.

THE FAILURES OF SOCIAL AUDITING

Fraud: Falsified documents, bribing of auditors, and coached worker interviews are very common and social auditors often do not have enough time or training to uncover instances of fraud.

Detection of FoA violations: Poor understanding of Freedom of Association is common among auditors and leads to false reassurances that this right - which cannot be monitored by a simple checklist approach - is upheld, even in countries that legally restrict the right to unionise.

Worker engagement: Audit practices often do not offer enough space for genuine worker engagement, for example instead of off-site interviews, they conduct worker interviews on-site and in view of the management.

Transparency: Audit reports are not made publicly available and are therefore not accessible to workers or other stakeholders, such as other buyers from the factory, but to the paying party only. Therefore, this leaves the decision on whether to follow up on the findings to a limited group of stakeholders and risks perpetuating violations if those stakeholders decide to cut and run or ignore rather than remediate the findings.

Cheap and quick audits: Audits often have to be carried out quickly, in a minimum number of days in order to limit costs. This does not allow for more time-intensive practices, such as off-site worker interviews.

Focus on factory level only: Auditing is usually limited to the situation in the factory and does not dive deeper into the root causes of violations, such as the purchasing practices (cost and lead time squeeze) by the brand or retailer that commissioned the audit.

Failing accountability: Social audit systems remain voluntary, do not contribute to building up state-based monitoring regimes, and are not held accountable when they fail to uncover and remedy grave and often fatal violations.

Detection of OHS violations: Poor understanding of occupational health and safety hazards to workers is common among auditors due to lack of even basic training and field experience in OHS. This practice leads to false reassurances that workers' right to a safe and healthy workplace – which is commonly evaluated with a brief, incomplete checklist by unqualified auditors – is upheld, and that national OHS regulations and international standards are being met.





HUMAN RIGHTS DUE DILIGENCE

Companies are bound by the UN Guiding Principles on Business and Human rights and Guidelines set up by the OECD to identify, prevent, and mitigate potential adverse effects of their business on human rights. They must practice human rights due diligence in their supply chains.

Social auditing has become the preferred route for companies to fulfill this obligation, but this report shows that it is a poor and unsuccessful means to that end, and one that has had fatal consequences in the past.

RECOMMENDATIONS

RECOMMENDATIONS TO GARMENT INDUSTRY STAKEHOLDERS

All stakeholders in the garment industry must examine how social auditing can be restructured to incorporate and prioritise the fundamental principles as described above. To that end, we have outlined below specific actions stakeholders should take to support this aim.

BRANDS

- Develop a robust due diligence process, including a policy statement, to assess their supply chain, identify, stop, prevent or mitigate any human rights risks or violations, and monitor and report on progress. Robust site-assessments should be a part of this due diligence process. Prioritise the most significant risks or impact, wherever they occur in the supply chain.
- Conduct root cause analysis of violations, and how pricing, purchasing and sourcing practices contribute to violations.
- Ensure that the audits are conducted by independent third parties, with no conflicts of interest, and that off-site worker interviews are conducted.
- A robust due diligence process includes paying a fair price for products through a price premium, negotiated higher prices, and/or other financial inducements that enable suppliers to afford the additional cost of compliance with the agreed labour standards. This will enable factory owners to pay workers a living wage, while incorporating costs for the adequate remediation of labour rights violations.
- Ensure there is no conflict of interest (e.g, the financial incentive that auditors have to produce reports that keep the brands happy, and therefore ensure their further contracting).

- Regularly review auditing methodologies used by auditing firms, especially when violations are not identified. Ensure that methodologies and composition of the auditing teams are gender-sensitive and adapted to the local context in order to identify violations that are often overlooked, such as union busting, discrimination and sexual harassment.
- Adopt supply chain transparency and publish all audit reports, time-bound corrective action plans, complaints and progress reports shortly after completion. Link them with the individual factories and regularly update this information. Review all contractual arrangements with auditors and suppliers in order to remove all barriers to the public disclosure of site assessment reports. Additionally, inspection reports should be translated into local language(s) and include pictorial material, to make them available to all workers and factory-level trade unions (if present). This enables them to challenge the auditors' conclusions directly with the brands, if issues were overlooked or not properly assessed.
- Transparency of audit reports should also allow for public monitoring of the remediation efforts of any issues identified in the auditing report.
- Create and strengthen effective, time-bound and transparent operational-level grievance mechanisms in line with the OECD Guidance for Responsible Supply Chains for the Garment and Footwear Sector.
- Develop and implement a proactive strategy on freedom of association, and assess suppliers for barriers to workers forming or joining a union of their choosing. If producing in Indonesia, join the Freedom of Association Protocol.
- Require suppliers to allow independent inspectors complete access to the workplace for regular announced and unannounced inspections and make sure that management does not interfere with the process of selecting workers for interviews, and that they allow for confidential interviews with workers.





Social Compliance Initiatives and Auditing Firms

- Publish all audit reports, time-bound corrective action plans and progress reports shortly after completion. Link them with the individual factories and regularly update this information. Review terms of reference and contractual arrangement to remove all barriers to the public disclosure of site assessment reports.
- Transfer auditing results and progress reports to national labour inspectorates, to allow for public monitoring of the remediation efforts of issues identified in the auditing report.
- Create a safe, transparent and time-bound grievance mechanism in-line with the OECD Guidance for responsible supply chains for the garment and footwear sector, enabling workers to challenge the auditors' conclusions, if issues were overlooked or not properly assessed.
- Improve the quality of social auditing reports by ensuring that factories are assessed by skilled auditors with knowledge and understanding of a broad spectrum of labour rights and legislations. Develop proper training schemes with respect to business and human rights and ensure that the complex skill set needed to assess the different risks is present in a factory (e.g. engineers to assess structural safety, a specialist in organising with knowledge of the local context, etc.). Auditors need to have expertise and local understanding of violations that are notoriously difficult to capture. Given the context in the overwhelming majority of production countries, reasonable doubt regarding freedom of association and the right to collectively bargain is justified and should be the starting point, unless there are demonstrable reasons indicating that workers do have the right to join or form a union of their choosing. Recognising that the majority of workers in the industry are women, all auditing procedures must be gender-sensitive. Special attention must be given to the specific risks that migrant workers are faced with.



- Make worker interviews integral to the process and a part of every audit. Such interviews need to include the following criteria at a minimum:

- Involve trade unions where present;
- Involve a non-biased selection of workers;
- Conducted in a comfortable space, off-site from the factory;
- Involve workers in the remediation of identified and reported issues through genuine worker participation.

- Lift audits above tick-box exercises. Increase a sector-wide minimum floor price for audits, under which quality is not guaranteed. Detail the minimum number of days needed for factories of a certain size and complexity, a minimum cost per day, the skills required for different types of factories, and the elements needed, such as off-site worker interviews, unannounced visits, and stakeholder involvement.

- Remove conflicts of interest in the payment structures for audits.
- Include third-party beneficiary rights for factory workers into standard contracts. In this way, a simple and direct legal remedy may be provided to those factory workers that social audits are meant to benefit. This is enabled by including a clause in the contract that auditing companies sign prior to performing an audit, allowing workers to claim for damages if they suffer harm even though an audit failed to identify relevant safety risks.





Recommendations only applicable to Social Compliance Initiatives

- Develop and implement mechanisms to sanction auditing firms whose auditing practices are not in-line with the Social Compliance Initiatives' own guidelines or who repeatedly oversee or under-report violations.

Investors

- Ask brands for robust due diligence processes, including a policy statement and site-assessments (including public disclosure of assessment reports), in order to stop, prevent and mitigate any risks, and track and communicate about them.
- Make investments contingent on auditing procedures that are transparent, allow for worker participation and access to grievances, and effectively address identified issues and in-line with the other recommendations in this report.
- Ask brands to sign and implement the Transparency pledge, publish all audit reports, time-bound corrective action plans, complaints and progress reports shortly after completion, and link them with the individual factories and regularly update this information.

Governments of Brand Home Countries/Regions

- Adopt and strengthen mandatory human rights due diligence legislation that makes brands, social compliance initiatives and auditing firms responsible for workers' rights violations in their international supply chains, in-line with the United Nations Guiding Principles on Business and Human Rights. Require audit firms, social compliance initiatives and brands to publish audit reports and incidences of labour violations. Audit reports need to be comprehensive and complete – for example, they must include all legal requirements, both national and international – so that companies do not report selectively.
- Legislation should include governance mechanisms to ensure brand, auditor and certifier liability, including:
 - Minimum standards for social auditing and certification, similar in scope to government standards that regulate financial auditing, against which social auditors can be held accountable.
 - Holding auditing firms and certifiers accountable for inaccurate information, inaccurate expectations and negligent practices.
 - Governmental oversight of social auditors and certifiers, by accrediting them and, if necessary, revoking their license.
 - Policy coherence, for example linking export credit guarantees and other forms of incentives to brands, including auditing firms, that meet the OECD Guidelines and respect criteria as laid out in these recommendations.



Governments of Production Countries

- Require audit firms and social compliance initiatives that are active on their territory to publish audit reports and incidents of labour violations. Audit reports need to be comprehensive and complete – for example, they must include all legal requirements, both national and international – so that companies do not report selectively.
- Stop subsidising factory certification and instead invest in proper, independent and well-functioning public inspectorates.
- Ratify ILO Labour Inspection Convention No. 81 and bring their own legislation in-line with this Convention. Strengthen national and local inspectorates through training and incorporating techniques and methods of social auditing, particularly focusing on preventative and regular inspections.

Public Procurers

- Require that government procurement policies include strong due diligence, criteria for the monitoring of labour conditions in suppliers, resources for independent monitoring of suppliers, and transparent reporting.



Yevgenia Belorusets