

Beyond Audit

Companies, if they are to manage risk, need to have confidence in the working conditions of the people who produce the goods they sell. Audits can help with this, but their scope is limited. To meaningfully improve labour standards, audits must be used other tools to identify and manage negativ impact on people and planet.

Since the mid-1990s, retailers and brands have commissioned audits of their suppliers' workplaces in a bid to prove to consumers, investors and campaigners that their products are 'ethical'. Yet standards vary and outcomes can be questionable.

Huge amounts of money and time are spent on audits by brands and their suppliers, which business representatives themselves have agreed can be "duplicative and not necessarily lead to change".

We still see workers bullied and harassed – and having to work long hours for very low wages. Audits can also miss key issues such as discrimination against minority groups or management resistance to allowing workers their right to freedom of association.

In particular, audits can become a box-ticking exercise if they are driven by the desire to certify a site for sourcing, rather than genuinely trying to assess the situation for workers. Time and again, we hear of audits having little 'real' involvement with workers, and the companies that commission them not investing in high quality follow up.

Ethical Trade Norway is not an auditing organisation. We do not offer stamps of approval. Rather we ask members to evidence their clear commitment to improving ethical trade in their yearly reports to us – and to demonstrate continuous improvement over time.

Audit methodology concerns

Audits alone can fail to reveal a full or true picture of what working conditions are like. It is important to note that:

- Audits represent a snapshot of a given point in time – they may not represent normal working conditions, particularly if they are pre-announced. In other words, audits give companies a one-dimensional view, when human rights risks are, by their very nature, complex and not likely to be revealed willingly.
- Standard audits rarely dig deep enough to discover the root causes of workers' rights violations, nor assess the risk of future violations. A typical audit might highlight a lack of personal protective equipment (PPE), but the reasons why may not be revealed. Yet such understanding is essential to identify the actions required to ensure better take up.

- The worst forms of human rights violations such as child labour or modern slavery are well understood to be ‘hidden crimes’ and are highly unlikely to be picked up by audits.
- Suppliers too, complain about the amount of audits they have to go through. Anecdotally, we have heard of some factories being audited up to 14 times in a single month by different brands. This has contributed to so called audit fatigue, resulting in a lack of engagement.
- There are also concerns about audit fraud: of managers falsifying records on wages paid and hours worked – sometimes with the connivance of unscrupulous auditors; or of workers trained to provide the ‘right’ answers when asked how they are treated.
- What's more, if audits are primarily technical in nature, they encourage a compliance mentality. Brands put pressure on suppliers, rather than acknowledge their obligation to engage with supply chains responsibly or adopt a longer term relationship which can address systemic issues.

The primacy of due diligence for responsible business conduct

Due diligence for responsible business practice goes beyond simple compliance. The Ethical Trade Norway approach to due diligence is based on [UN Guiding Principles on Business and Human Rights](#) and [OECD Due Diligence Guidance for Responsible business](#). They demand that business finds out about the risk to human rights by investing in a more inclusive due diligence approach i.e. through understanding, prioritising, mitigating and reporting on risk.

Brands, which are most successful in improving labour standards, always use due diligence supplemented by well-run high quality audits. This helps companies understand the action they need to take, and is better for workers and for businesses.

For new products or new geographies, an inclusive due diligence process is also the best way for gathering baseline data, or as a starting point when a company is at the beginning of its ethical trade journey.

Depending on what is found through detailed analysis, there may be a need for specific support to improve systems. Although, when a situation is one where a supplier has good conditions, strong systems and a high level of transparency, then an ongoing audit approach may be adequate.

However if the baseline is weak, then lasting change requires work at a range of levels. It means grounding any action on improving labour standards, corrective and otherwise. It also includes, but is not limited to:

- Examining buying practices e.g. the prices and lead times companies give to suppliers;
- Helping suppliers build effective management systems, and;
- Encouraging suppliers to recognise and engage positively with trade unions, as a key enabler for improving workers’ rights more broadly.

The bigger picture

To drive sustainable improvement in their supply chains, companies must think about the bigger picture and not just take corrective action on specific issues.

They must engage with workers and their representatives directly to understand what labour rights issues are common within a country and region. They must also engage with supplier management to ensure values and actions are aligned and, on occasion, work with their peers to tackle the wider issues that can perpetuate poor standards.

It certainly means recognising that where specific problems are known to be endemic, a clean bill of health from an audit may well be incorrect and put the business at risk.

In short, audits can be a useful tool in the responsible business toolkit if used skilfully and appropriately. But, like any toolkit, there needs to be other tools appropriate for other tasks.

The skills auditors need

Based on our members' experience, good auditing teams should have:

- Male and female members — it is particularly important to embed diversity and that inspection teams include women where the workforce is predominantly female
- Knowledge and understanding of the production process, the materials used and how production records are kept
- An understanding of wage systems and record keeping
- Knowledge and understanding of the ETI Base Code, relevant local and international labour standards, applicable laws and regulations
- Knowledge and understanding of the local situation, including relevant local culture or customs
- Knowledge and understanding of health and safety standards and practice, including industry-specific standards and best practice
- The ability to speak the language/s used by the workers concerned
- The ability to record and report in a transparent and professional manner
- The ability to conduct effective interviews — particularly important with worker interviews
- The ability to detect non-verbal cues from interviews (for example, body language, facial expressions)

[The Supplier Ethical Data Exchange \(SEDEX\)](#) and the [Consumer Goods Forum](#) respectively have best practice guidance on how to choose auditors and guidance on assessing audits.