Corrupt Audits Damage Worker Rights

A Case Analysis of Corruption in Bureau Veritas Factory Audits

A China Labor Watch Investigation

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I. Introduction

Implementation of corporate responsibility codes at present hinges on the factory audit. This is a process by which a team of auditors travels to a given factory to see if the factory is compliant with all of a corporation's codes, as well as national and international laws. Audits are a window into the inner workings of a Chinese factory for corporations and consumers who are located across the world. They are also a way for workers to communicate with the corporations for whom they are producing goods. They are a means of guaranteeing that worker's rights are respected and one major way that corporations can monitor their sourcing.

China Labor Watch has a long-term mission of improving working and living conditions in China, and encouraging corporations to comply with Chinese labor law as well as their own social responsibility standards. CLW frequently launches investigations of factories. The results of its investigations are often significantly different from those of the audits conducted by third party auditors for multinational corporations. CLW has investigated this discrepancy and found that the primary reasons are auditor corruption and lack of technical skills.

The failure of the audit system undermines corporate standards and contributes to poor working conditions. Corporations that legitimately seek to implement corporate responsibility by supplementing audit data will need to pay associated costs and this is a competitive disadvantage. Factories that pass audits by means of bribery also have an unfair competitive advantage, because factories that do pay for better conditions must accept orders at the same low prices as factories that do not pay these costs.

This report is an analysis of different forms of corruption that undermine the factory audit process, including extortion, bribery, improper conduct during audits and exchange of other gifts between auditors and factory management. The investigation focuses on auditors employed by Bureau Veritas (BV), one of the largest auditing firms in the world. In an investigation from 2007-09, BV had the most instances of possible corruption, and of 19 BV audits investigated by CLW, 10 or 53% yielded significant evidence of corruption.

CLW encourages corporations that source from any factories named in the report to conduct independent follow up investigations in order to verify that existing audit data reflects actual conditions in these factories.

II. Chinese Media: Focus on Corruption

On August 5th, the Shenzhen edition of *Southern Metropolis Daily* published an article titled "Refuse Extortion and Fail Audits: Factory Names International Certification Company in Complaint of Unethical Audit Behavior, Still No Response from Company." In the article, Yangguang Plastic Factory in Longgang District, Shenzhen City claimed to have failed four audits because it refused to give bribes to Bureau Veritas auditors, and to have subsequently lost orders that led the factory to bankruptcy. Corruption, a significant part of the production landscape in China, but it rarely hits newspaper headlines, making this story one of particular interest. A translation of the article is included as an appendix to this report.

During Yangguang's first BV audit last November, auditors mentioned that an outside consulting company could help the factory to pass its audit. After the failed audit, factory managers received calls from a consulting company that claimed it could guarantee a successful second audit if the factory paid 30,000 RMB ($4,412). The factory refused, and failed the second audit too. Following this second failure, the factory recorded one of the calls with the consulting company, this time with a demand for 70,000 RMB ($10,294) for a guaranteed pass. BV itself paid for a third audit in which an independent third-party monitor from the International Council of Toy Industries (ICTI) accompanied the auditors. Once more, the factory failed. The factory claimed that in this and a subsequent fourth audit, BV auditors took a retaliatory attitude toward the factory, leading the factory to fail and subsequently move to the brink of bankruptcy.

Both workers and management at Yangguang Factory believe that BV is responsible for the factory's current condition. "The BV Shenzhen subsidiary auditors are severely discriminatory, and unable to uphold ethical standards in their audits," stated the Yangguang Factory Union. They blame BV's auditors, who they claim arrived at the factory in expensive Audi cars looking for a bribe. The factory had already passed 5 years of audits by other companies, and in nearly a dozen calls to CLW Executive Director Li Qiang, factory management explained that improvements had recently been made. CLW's own investigations found that conditions at Yangguang were at least average in the industry. While conditions were in need of improvement, they were also clearly better than other factories that did not lose orders after BV's audits.

Bureau Veritas explains that the fraudulent consulting company was not connected to any current employees at the company, but rather was the work of an auditor previously terminated for corruption (BV has not addressed, however, how the consultant company knew of the supposedly unannounced audit, which suggests that some current employee was involved in this corruption). Auditing companies are well aware of problems with auditors fired for integrity reasons, and BV has reached out to both clients and audited factories as a warning to look out for fraudulent "consultants" who seek to undermine audit integrity. As for Yangguang's repeated audit failure, BV claims the main reason is serious legal violations at the factory rather than corruption or a retaliatory attitude on the part of BV auditors. They point to the presence of an independent monitor in the third audit as proof of the legitimacy of these results.

Extortion, fraudulent "consulting" agencies, retaliatory audits- this is the vocabulary of a trend toward corruption that has undermined worker rights across China. The Yangguang case is not an exception. In an attempt to increase transparency on this issue and pressure both audit companies and their corporate clients to bolster anti-corruption efforts, CLW has initiated an in-depth investigation on audit corruption.

III. Background and Methodology

While investigating the supply chains of several multinational corporations in China, CLW has discovered that a large number of factories with substandard factory conditions are able to pass Code of Conduct (COC) audits, like the one in the Yangguang case, by means of corruption. These audits, often conducted by audit companies on behalf of multinational corporations, verify corporate standards, industry-wide standards and international standards. Thus, corruption in the audit process undermines implementation of standards at all levels. This represents a major blow to worker rights protection.

The current report details the first phase of an investigation into the nature of audit corruption, and specific forms that this corruption takes. Research for the report occurred in 2007-2009 in Guangdong Province, China. In this investigation, CLW investigators spoke with high level factory management, managers responsible for social responsibility, supervisors, consulting companies and industry lawyers. In total, the investigation covered over 80 factory audits. 19 of these audits were conducted by BV, of which 10 yielded evidence of corruption. The rate of BV audits in the investigation suspected of corruption, then, is 53%, the highest rate of any company in the investigation.

Corporate audits are conducted by a number of large, multinational auditing companies, but this report focuses on BV, the company responsible for the Yangguang audit. Headquartered in Paris, France and operating since 1828, the Bureau Veritas group provides conformity assessment and certification services around the world, focusing on inspection, analysis, audit and certification of products, infrastructure and management systems. BV has 850 offices and labs around the world, and employs over 33,000 people. This report only targets BV's operations in Guangdong Province, China.

It should be noted that CLW has been in constant communication with BV regarding information in this report. BV has investigated these specific instances of corruption and made improvements to its anti-corruption efforts in China. Nevertheless, CLW urges any customers of factories mentioned in this report to conduct independent audits on the factories in question to verify conditions. CLW urges BV to continue pressing for high quality anti-corruption work, and for other audit firms to follow suit.

IV. Investigation Results

The investigation identified the following specific forms of corruption in the COC audit process: Extortion, Accepting Bribes, Retaliatory Audits, Transportation Requests, Food Service Requests, and Other Forms of Corruption. Each type of corruption is illustrated by a single case or a number of cases that flesh out specific details of how a type of corruption operates. These types of BV auditor corruption are not limited to BV or a single industry, but are representative of corruption that occurs in all COC audits.

1. Extortion

The investigation revealed that in the process of COC audits, auditors often extort factories to give bribes. The process of extortion begins with a question. During the audit process, after auditors have identified proof of violations at a factory, they will present the proof to factory management and ask how the violation should be handled. If the auditor has identified a serious violation, such as the factory not following guidelines for working hours or paying wages illegally, the factory will not pass its audit if the auditor records the violation. While ultimately, the decision as to whether a factory will pass is left to the customer or institution to determine, both the auditor and factory management are well aware of what criteria would prevent the factory from passing. Therefore this question represents an important decision for factory managers.

Many factory managers know that when they are asked this question, the auditor is asking for a bribe. Paying this bribe will allow the factory to successfully pass the audit and is therefore in the best interests of the factory (at least, their short term interest). Thus, most managers will respond, "We hope you can help us out, please tell us what we must do to avoid having this violation recorded in the report." At this point the auditor will write a number on a blank paper or type it into a calculator, and this is the figure that the factory must pay as a bribe. If the factory agrees, they need only to put the money in an envelope and give this to the auditor, and once the auditor has confirmed that it is the correct amount, the auditor will give a passing audit to the factory.

In some cases, the amount of the bribe is discussed. If the factory manager believes the request exceeds their capacity, they will suggest another amount. If the auditor agrees in the end, the deal will occur. If the factory does not agree to pay the bribe, the auditor will conclude that the factory is unqualified in the report.

Case 1- Extortion and Bribe Negotiation

On December 23, 2008 3 BV auditors conducted an audit at Jian Lin Factory in Chang An Town, Dongguan City, Guangdong Province. Upon discovering that the factory's working hours had problems, the auditors requested a bribe for the amount of 15,000 RMB ($2,206)/person (a total of 45,000 RMB or $6,618). Because the factory management believed its working hours were compliant with regulations, they refused to give the money. The auditors insisted that if the bribe was not given, they would write in the audit report that working hours were not within the guidelines.

Factory management feared that a complaint would not succeed because of inadequate complaint channels. Therefore in order to protect the factory's interests, one manager suggested giving the three auditors 5,000 RMB ($735) each (15,000 RMB or $2,206 total), with the added condition that the auditors would guarantee that no follow up audit would take place. The factory's owner finally agreed to this suggestion, and the auditors also agreed to the amount and conditions. While it was far from their desired goal, the factory stated that it was their highest tolerable limit and so the auditors agreed. In the final report, the auditors recorded only 4 minor instances of factory noncompliance, which according to regulation means that no further follow-up was necessary.

After CLW reported this instance to the ICTI toy factory certification program, on December 30 two BV investigators went to the factory to investigation the incident. Due to the result of this investigation, as well as other ongoing investigations, all three of the auditors involved were terminated or resigned from BV. Both BV's quick response to this case and its existing investigations demonstrate that the BV integrity control program is active and produces results.

Other factories had similar stories about these three auditors. They succeeded in obtaining 9000 RMB ($1,324)/person at one factory and 5000 RMB ($735)/person at another.

The following typical features can be noted in this case:

1. During instances of extortion, the entire audit team can participate and each auditor may ask for a portion;
2. The head of the team is not able to demand more because of their position;
3. If only one person in the team objects, the extortion will not happen.
4. Factories fear reporting extortion because they do have some issues and suspect that after reporting they will face an even stricter audit.

Case 2- Bribery through a "Consulting Agency"

In 2007, a BV auditor accompanied by two others (possible other auditors or friends of the auditor) conducted an audit at Teng Da Factory in Chang'An Town, Dongguan City, Guangdong Province. During the audit, the factory did not offer a bribe to the auditors but hired the firm Dongguan Baifen Bai Consulting ("Dongguan 100 Percent Consulting ") to offer 10,000 RMB to each auditor. In the end, the factory's audit was successful enough continue receiving orders from international brands.

The factory hired the consulting firm already in its preparation for the COC audit. The firm's contract contained a guarantee that the factory would pass, or else the firm would pay damages to the factory (limited to the consulting fees paid by the factory). In this arrangement, the factory did not offer a bribe to auditors directly, but the consulting firm actively used bribery to guarantee that the factory passed its audit. Of course, the amount of the bribe was, in turn, limited by the fees paid by the factory to the firm.

In this case, corruption was enabled by a consulting company, much like the one involved in the Yangguang case. With a consulting company's assistance, a factory is able to adhere to professional business ethics while the consulting firm engages in corrupt behavior to satisfy auditors' requirements. While it is difficult to identify to what existing relationship the auditors have with the consulting company, CLW has classified this case as "extortion" because the bribe is negotiated between the consulting firm and the auditor, and the factory management is not directly involved in this exchange.

This Dongguan "consulting" firm Bai Fen Bai Consulting in this case has been involved in a number of other cases involving BV auditors. Its slogan is a 100% guarantee that a factory will attain audit success. Its consulting fees are very high, generally 50,000 RMB ($7,353) or more, which is significantly higher than the industry average. A portion of the consulting fees are presented as a bribe to auditors, and the net profit of the consulting company is not high after 20-30,000 RMB ($2,941-$4,411) is used as a bribe. The company guarantees that the factory will not have to improve any deficiencies in working hours, wages or benefits, thus positioning itself squarely against the interests of workers at the factories with which it "consults".

In October 2009, a factory in Dongguan was audited by BV. One week prior to the audit, the factory was contacted by a consulting agency which was aware of BV's upcoming audit and claimed it could help the factory to pass. In discussing the cost of this service, the consulting company stated that if the factory did not have any major problems, they could pay 10,000 RMB ($1,470) but if they had serious problems they would need to pay 25,000 RMB ($3,676). The factory paid the higher price for the company's help.

After the consultant company helped the factory to prepare for its audit, two BV auditors came to audit the factory. They did not identify any serious problems and the factory passed the audit without any major difficulties.

This case tells that BV has issues monitoring the confidentiality of information, and that issues of corruption plague BV internally. The auditors in this case do not necessarily have integrity issues themselves.

Case 3- Double Crossing and Mutual Extortion

One factory manager told CLW's that in late August 2007, management was pleased that a bribe of only 2,000 RMB ($294) was necessary in order to pass an audit. Originally, the auditor asked for more. She deliberately made trouble for the factory and then asked for a 10,000 RMB ($1,471) bribe. The factory management began to follow through with the auditor's demands and negotiate the bribe, but secretly recorded the conversation. Afterward, managers told the auditor that the entire conversation was recorded, and if she did not accept a bribe of only 2,000 RMB then the factory would present the tape to BV's upper management. The auditor accepted immediately. In following up on this case, CLW's investigators discovered that, unfortunately, the recording was not preserved.

One very interesting part of this instance of corruption was that after obtaining a recording of the auditor's unethical behavior, the factory did not go to BV's upper management and report the case, which would have been sufficient to deter the extortion. Instead, management offered a bribe when there was no need. Why would factory management pay this unnecessary bribe when there was a clear alternative?

Factory management gave the following response to the above question: "Currently it is very common to offer bribes or other services to auditors, and the factory merely hoped to avoid excessive auditor demands. Factory management does not want to pay a bribe that would raise costs unacceptably, and it is reasonable to pay 1000-3000 RMB or offer some other services in order to successfully pass a one time audit. Many factories voluntarily use these standards in offering bribes or other services. If the factory gave the recording to BV or a customers, the audit would be a failure and a new one would be arranged, which is not in the interest of the factory."

This case provides more insight into the process of corruption:

1. Factories have means of restricting the amount of the bribe that auditors demand.
2. There is little practical value in exposing auditors' unethical behavior to auditing companies, which hope for evidence of corruption to catch the few bad eggs amongst the hundreds or even thousands of auditors they employ. Nevertheless, the monitoring system they use offers no guaranteed benefits to the factory.
3. This story confirms an aspect of the example in Case 1: when negotiating the price of a bribe, the auditors must write the figure rather than saying it aloud.

2. Accepting Bribes in an Audit

During the audit process, after auditors have identified serious violations of which the factory is also aware, some factories will offer bribes in order to pass the audit and some auditors will accept the bribes. This transaction can also take place at the very beginning of the audit.

Auditors who accept factory bribes will either conceal serious violations in the audit report or deliberately record only surface evidence of compliance. Of course, auditors will also often record minor violations in the report. The size of bribes that auditors accept range from 5,000-10,000 RMB.

Case 4: Auditors Take Care When Accepting Bribes

In September, 2009, a factory in Dongguan was audited by BV, and hired a consulting company prior to the audit. During the audit, the auditors discovered excessive overtime and wage problems. The consultant company wanted to pay 5,000 RMB to deal with these issues, but the auditors would not accept the payment. The consultant company contacted the factory's board of directors, and only after communicating directly with the factory's board would the auditors accept a bribe of 8,000 RMB each.

This case illustrates that:

1. Auditors are sometimes very careful when accepting bribes.
2. BV has increased its monitoring of corruption, and auditors are growing more apprehensive to accept bribes.

During an audit from May 20-21 at a factory in Dongguan (information was given on the condition of anonymity) the factory voluntarily offered a bribe to a female auditor doing an ICTI certification audit on the afternoon of the 20th. The auditor refused the bribe, saying “I cannot accept this money or I won’t have a job any longer.” The investigation therefore also identified instances where BV auditors refused bribes

3. Retaliatory Audits

A “retaliatory audit” refers to an instance where, because of personal reasons, an auditor is unable to maintain impartiality during an audit. The auditors adopt the attitude that their work is not complete until they have identified violations. Upon identifying violations, they will not conduct an analysis synthesizing all of their findings but instead use the single violation to represent the factory’s overall compliance. The auditor’s goal is not an independent, impartial evaluation of the factory’s overall labor performance, but rather to show that the factory has not achieved compliance based on whatever evidence they can find. Not many auditors employ this strategy, but it does happen, especially in cases where bribes are refused, as in the Yangguang case.

Case 4- Impartiality Lost in the Retaliatory Audit

On November 15, 2007, four BV auditors conducted an audit of Ming Wei Electronic Factory in Bao'An District, Shenzhen City, a subsidiary factory of a listed company that owns a number of factories. As a listed company, the factory believes that it does a relatively good job of labor protection. But when auditors came to inspect the factory, they reported a number of violations. One factory manager got into a heated argument with the auditors about the report. This fight soured the relationship between the factory and the auditors, setting the scene for a retaliatory audit.

During the follow up audit three months later, the auditors used an irregular, retaliatory method to conduct the audit. They requested the last 10,000 pages of production records, and announced that working hours were inconsistent with the records. The factory manager once again argued with the auditor, and demanded to be told the auditor’s name and contact information as well as information on the complaint process. The auditor refused to provide this information and simply told the factory to call BV’s office.

It should be noted that during a COC audit, auditors can, and should, inspect production records in order to verify accurate working times. Normally, auditors randomly select records and compare them with working hours recorded for that day to see if they are accurate. When an inconsistency is discovered between the production date and working hours, auditors must determine if there was a mistake in the records or some issue recording working hours. In this case, the auditor announced that there was a single mistake within 10,000 pages of production records, and immediately concluded that the production records were false.

This is a typical “retaliatory audit”. Following a dispute between auditors and factory management, the auditor will deliberately make trouble for the factory on the next audit.

Even more troublesome to factory management is the auditor's refusal to provide their own contact information as well as information on the appeal and complaint processes.

4. Transportation Service Requests

Auditors' transportation fees are already paid to the audit company in the audit contract, and auditors are supposed to handle their own transportation (of course, if the factory is in a mountainous area or remote location, the factory is responsible for taking auditors to a close-by bus station or area where taxis are available). Another means of corruption is for auditors to demand the factory provide transportation above and beyond the fee that is already paid.

Case 5- Demanding a Ride Home

On June 24, 2008, after an audit of Lifa Baozhi Pin Factory in Hou Jie Town, Dongguan City, four BV auditors strongly insisted that the factory provide a car to take them to the Puji and Nantou districts of Shenzhen (more than 20 km from the factory). The factory had no choice but to arrange for transportation to Nantou (the meeting point of the city and suburban areas), and the auditors were very dissatisfied that the driver refused to deliver each of them to their residences.

Why would auditors demand that the factory provide transportation? One possibility is that BV uses a fixed transport fee system and the money the auditors save on transportation fees will go directly to their income. Another possibility is that the auditors see themselves as entitled to special privileges.

5. Food Service Requests

Can auditors accept cafeteria services at a factory? In some multinational corporations' 2nd party audits, accepting a factory's canteen service is strictly prohibited. If there are no other eating establishments nearby or if it is inconvenient not to eat in the factory cafeteria, auditors must pay the canteen fee (usually around 10 RMB). In recent years, it has become common for auditors from auditing companies to eat in factory cafeterias as long as the food is the same cafeteria food that the factory normally prepares.

Another policy audit companies have adopted to handle this issue is to require auditors to "go dutch" when eating out with factory managers to show that they have not received any special treatment. Of course, this payment is largely symbolic and rarely do audits actually pay for the full cost of their portion of meals. Meals that factory management arranges often cost 100 RMB/person which greatly exceeds the 30 RMB/meal limit imposed by many audit companies.

Case 6- Ordering at a Gourmet Feast

In the audit described above at Lifa Baozhi Pin Factory, the factory arranged for several managers to accompany the auditors to a meal. According to Chinese business customs, the guests should ask the host to order, but in this case the managers politely requested for the auditors to order food. The BV auditors did order and the cost of the meal exceeded 100 RMB/person. This fee was paid by the factory manager.

6. Other Forms of Corruption

A. Accepting entertainment services from the factory: usually Karaoke, spa treatment or sexual services. Usually it is only male auditors that accept this kind of service;

B. Travel services: If the factory is located near to a scenic area, managers will escort some auditors to go sightseeing in the area;

C. Accepting gifts of money: After the audit is finished, if the factory is satisfied with the auditor's performance they will give a financial gift while seeing off the auditor, generally 500-3,000 RMB.

D. Accepting gifts/products: If the factory discovers an auditor is interested in the electronics, toys, clothes, shoes or other products made at a factory, they will arrange to give these gifts to the auditor.

V. Multinational Corporations Hide Behind Third Party Audits

In October, CLW Executive Director Li Qiang met with the management of a number of factories. They complained that because of their factories' size, they could not falsify audits and therefore their costs were very high, making it difficult to complete with factories that passed multinational corporations' audits through bribery. This led them to reduce labor costs or investment in safety. One factory manager who was particularly familiar with multinational standards told CLW that BV is very flexible in the audits it conducts for multinational corporations.

Auditor corruption not only leads to unfair competition between factories, it also leads to unfair competition between multinational corporations sourcing from China. Some corporations merely seek to placate the outside world, not become models of responsibility. However, they nonetheless find that they have no choice but to go beyond statements and conduct actual audits. Third party auditors that understand the situation may give these companies the positive results they want, regardless of factory conditions. This leads to unfair competition between corporations that actually seek to implement good social corporate responsibility programs and those just seeking to appease customers.

In 2009 CLW conducted in-depth investigations on 4 Dollar General (DG) factories. Workers at some factories worked for over 150 hours/month, factories withheld overtime wages, wages were lower than the legal minimum wage, and some departments had major safety issues. CLW investigated these factories since May of 2008, and even sent investigators into the factories to obtain concrete evidence of violations. CLW cannot confirm that corruption was involved in BV's audits of these factories. CLW can confirm that DG has continued to place orders at these factories in spite of serious violations of both the law and DG's code of conduct, even after BV audited the factories numerous times.

Case 7 illustrates a concrete example of a factory with gross violations passing BV's audits.

Case 7- Overlooked Sweatshop Conditions

Shan Sha Teng Da Plastic Factory in Chang'an Town, Dongguan City passed a BV COC audit by means of corruption. However, the factory was a well known "sweatshop" in its industrial area:

1. There is age discrimination in recruitment, and only 18-40 year olds are hired.
2. If workers in the probationary period would like to resign, they are not paid any wages. For example, if after two weeks a worker decides to resign, they will be given no wages, and can only leave without being paid.
3. Workers are only paid 22.5 RMB/day, about 60% of the minimum wage. Workers are only paid 3.8 RMB/hour for overtime at night, also 60% of the legal overtime wage. Workers are paid regular wages for Saturday overtime (not OT wages) which is 30% of the legal requirement.

On the other hand, some factories with relatively good rights conditions refuse to pay bribes and do not receive certification. Shenzhen Tian Wei Factory, a subsidiary of Hong-Kong listed IDT Group, encountered such a situation.

V. Conclusions

Even if only one or a few auditors at each major audit company ignore ethical requirements and not the majority, this report demonstrates that these incidents are never isolated. A single auditor audits over 100 factories per year. If an auditor is found to engage in corrupt behavior once, it is unlikely that they are seriously committed to ethical standards at other times. Therefore, the dozen or so auditors that CLW identified as engaging in corrupt behavior in this report could influence tens or hundreds of factories (employing thousands or tens of thousands of workers). And there are other corrupt auditors that CLW has not identified.

While the forms of corruption show a good deal of diversity, the end result is the same. Corrupt auditors continuously enable sweatshops to export goods to Europe and America while concealing labor violations from corporations and consumers. This serves to undermine the efforts of factories that do invest in good labor conditions and therefore undermines worker's rights in general and on the specific factory level. CLW therefore has the following recommendations:

1. Corporations that do business with BV must do spot checks of BV-audited factories (a practice BV itself agrees to), and BV certification must be monitored by third party organizations.

2. BV must implement a more effective anti-corruption system, including third party corruption inspection.

3. BV must implement a public anti-corruption reporting system, and guarantee that factories which report corruption will not face retaliatory audits.

VI. Appendix. Article from *Southern Metropolis Daily*

Refuse "Bribery Demands" and Fail Tests:

Factory Names International Certification Company in Complaint of Unethical Audit Behavior, Still No Response from Company

Online here.

By: Feng Lei
Date: 2009-08-05
Source: *Southern Metropolis Daily* (Nanfang Dushi Bao)

Summary: From last November 11 through July 22 of this year, Yangguang Plastic Factory, a Hong Kong-invested enterprise in Longgang District, Shenzhen, was audited four times by internationally known certification company Bureau Veritas (BV). After failing all four audits, Yangguang Plastic Factory lost orders and crept toward bankruptcy. Yesterday, the factory union issued a complaint against BV's Shenzhen subsidiary auditors for "demanding bribes" and when they were not delivered taking unethical "reprisal" which has led over a thousand workers to the brink of unemployment.

Factory: Failed to pass audits, no more orders

According to Yangguang Plastic Factory union leader Mr. Li, the factory currently employs over 1,000 workers, and is certified for international toy company Mattel's OEM (Original Equipment Manufacturer) status, and has been a part of the International Council of Toy Industries (ICTI) for nearly six years. In order to follow international export conventions, the factory submits itself each year to auditing by a third party certification group, and last year before November, had successfully passed a number of third party firms' audits. Although at times audits discovered issues, the factory was always able to pass after correcting these problems. From last November, however, ICTI assigned international certification company BV to audit the factory four times through July 22 of this year, and the factory failed each time. As a result, the factory has no more orders and is on the verge of bankruptcy.

According to factory vice president Mr. Ning, last year on November 11, BV's Shenzhen office auditors conducted the first audit, and a team of three auditors discovered a total of 34 problems. A dispute resulted when the factory management and auditors had different views of certain problems, and finally, one of the auditors went so far as to suggest that "Your factory has so many problems, you should invite a consulting company to assist you."

According to union director Li, at 7 pm on February 28 of this year, a man called factory manager Mr. Jiang and said, "[informal: Old] Zhang, during the factory audit this time, give 30,000 RMB [$4,412 USD] to ensure passing, we will give you this final chance." Jiang recorded the phone conversation. Finally, the factory decided to reject the request for money. On March 2 during the second factory audit, BV's Shenzhen office auditors once again discovered more than ten problems, and the factory could not understand why the auditors claimed to discover the same problems as in the original audit. Again, the factory did not pass. After this, Jiang called the man who offered the "bribery demand" and was told "If you want to give money now, it will take 70,000 RMB [$10,294 USD] to guarantee a pass."

Li states that they were very angry, and reported to BV that the three auditors had demanded bribes. The three auditors were fired. After, on March 28 and July 22 of this year, BV conducted its third and fourth audits of the factory and again the factory did not pass, each time with the same assessment. As a result, the factory believed that BV company harbored a "vindictive" attitude, which led to the drop-off of orders and over 1,000 workers who now face unemployment as the factory approaches bankruptcy. For this reason, the factory presented the situation to the Henggang Road Union, the Longgang District Union, and the Shenzhen Federation of Trade Unions, and also submitted the "bribery demand" recording.

"The BV Shenzhen subsidiary auditors are severely discriminatory, and unable to uphold ethical standards in their audits," stated the Yangguang Factory Union. "The audit materials they collected are extremely one-sided, and do not accurately represent actual circumstances in the factory. The audit division has its demons too; while they did not take no notice of complaints and other communication with the factory, they were evasive, which has caused serious financial losses to both the factory and its workers."

Factory union: Has "bribery demand" recording, investigation underway

Yesterday morning, Henggang Road Union Vice-Chairman Mr. Zhang stated they had earlier received complaints from Yangguang Plastic Factory, and received the "bribery demand" recording, and although they had contacted BV's Shenzhen subsidiary office, they had not yet made contact with someone to resolve the situation. If BV's Shenzhen office can not actively handle the issue, BV's Shenzhen office will be responsible for subsequent social instability.

Yesterday morning, a Longgang District Union Worker Rights Department official stated that the union was actively investigating the situation and was still waiting for a direct response from BV's Shenzhen office, with whom they are in actively communication. Yesterday afternoon, the Shenzhen City Federation of Trade Unions had begun investigating but had not yet decided on a final plan to handle the situation.

Since yesterday evening, the reporter has contacted BV's Shenzhen office but the group's HR, Social Responsibility and Quality Control Audit Departments all declined comment, displaying an evasive attitude. BV's Chen Fengyun stated that all relevant departments will deliver responses to the media but as of last night, no further information was provided.