



A Look At How Some Chinese Factories Lie To Pass Audits

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Kathy Chu, a journalist at USA Today, wrote an article yesterday on the new measures Chinese factories are taking to rig the audits that many multinational corporations require. China Labor Watch had the opportunity to contribute information for the article and is cited several times. If you find this topic interesting and would like to learn more about the growing trend of corruption in the auditing process, we recommend you also look into our recent lawsuit filed against the international auditing firm Intertek, which shows both the complexity and fallibility of the current auditing system. Intertek is trying to throw out the case on a technicality, and the court will hear their Motion to Dismiss on May 9th to determine if the case will move forward. For more information on the specifics of the case, please refer to the [article on our website](#).

Some Chinese factories lie to pass Western audits

Kathy Chu

HONG KONG — A Shanghai consulting firm advertises software to help Chinese factories pass the labor audits required by Western companies, saying it can generate *“real and fake books”* and *“irregular attendance records that match factory testing standards completely.”*

The firm is part of a cottage industry of audit-assistance firms that has sprung up in China as Western companies demand high labor standards but low prices from factories that make and assemble their products. These consultants advise factories on audit standards, working conditions and employee records. But some also help factories lie and fake documents to pass increasingly rigorous audit standards and get the business of Western companies, auditors and labor rights groups say.

An investigative mind-set

“It’s a big market of firms that helps factories fake documents,” says Rachelle Jackson, an auditor at UL Responsible Sourcing, which audits factories for multinationals. Auditors have to *“stay one step ahead and really apply skilled investigative techniques to get to the bottom of things at times.”*

In recent years, multinationals from Adidas to Apple have stepped up their scrutiny of Chinese suppliers amid mounting public outcry about harsh working conditions, low wages and environmental pollution in the factories of the world. Apple recently commissioned an independent audit of the Chinese factories of one of its largest suppliers, Foxconn Technology Group, and found that workers there were underpaid and overworked. Auditors also found a document *“that might have been used to prep workers”* with answers, says Jorge Perez-Lopez, executive director of the Washington, D.C.-based Fair Labor Association, which conducted the investigation.

In response, Louis Woo, assistant to the CEO at Foxconn, said in a statement that no factory workers were *“given any guidance regarding any encounter they might have with the (FLA) auditors.”*

Audit fraud is an issue of “considerable concern” to companies that contract with Chinese manufacturers, and appears to affect factories of all sizes, says Peter McAllister, director of the Ethical Trading Initiative, a London-based group of multinationals, trade unions and non-profit organizations all over the world.

Indeed, *“Fake payroll is so common our auditors assume there are always at least two sets of books”*, says Jackson.

China Labor Watch, a New York-based advocacy group, alleged in a lawsuit last year that a Shenzhen, China, toy factory may have bribed its auditor in addition to forging employee salary records and time sheets. The allegations were contained in a lawsuit the group filed in New York against the auditor, which claimed the auditor broke an agreement not to reveal the identity of a confidential source.

Coached on what to say

Separately, CLW obtained a 2009 internal factory memo from Huasheng Packaging, which makes disposable cups, containers and packaging, that instructed management that environmental and employee work records should be “adjusted to meet requirements” ahead of a Wal-Mart audit. Management was also coached on what to say to auditors about wages, benefits and working hours and told to block access to a second Huasheng factory nearby, according to the group, which has posted the memo on its website.

Huasheng didn’t respond to requests for comment. Wal-Mart says it made changes after the 2009 CLW report was published, including

hiring independent auditors instead of auditing suppliers itself and getting tougher on factories with repeat violations. Wal-Mart declined further comment.

"An audit is, in theory, a way for the buyer to get an idea of what's happening in the factory", says Alexandra Harney, author of The China Price and a former consultant to the Fair Labor Association. "The problem is that audits themselves have become a game of cat-and-mouse."

Wang Jieying, a sales manager for Shanghai Zhengfeng Enterprise Management Consulting, the company that advertises software to generate fake factory books on its website, says that this part of its site was uploaded a "long time ago" and "gave an incorrect introduction to our software."

"There's definitely no replacing of (information), because that's illegal", says Wang.

Zhengfeng's software allows factories to adjust their employee data to reflect changes such as workers quitting the company, according to Wang. The software also allows companies to fix payroll records when workers accidentally swipe time cards twice, she adds.

Demand is rising for the company's services, she said, because factories need more help to comply with tougher auditing requirements from multinationals. Zhengfeng's business grew through the global recession, and last year, the number of clients rose another 10(PERCENT).

Some factory owners say it's impossible to meet multinationals' demands for better working conditions as well as lower prices.

"If clients need us to follow their requirements completely but offer such low prices, how can we produce anything?" asks a poster named "Glory" on an online forum in China called the Product Examiners Archive. "Some factories spend millions of yuan to cope with factory testing, but at last didn't see a trace of contracts from big clients."

Another netizen, named "lxgyang," says his factory forges paperwork because *"We can't meet their standards 100(PERCENT). This is China. The auditors I have encountered all did surface work. If they dug too deeply, neither the factory nor the auditors would benefit, wouldn't they?"*

Altering employee records isn't the only way that some Chinese factories try to trick auditors.

When a UL Responsible Sourcing auditor was at a factory in China two years ago, she witnessed young employees being ushered into a back room, Jackson says. She found out that they were underage workers who had been told to hide from the auditor. At another factory, a UL auditor found child employees hidden in an industrial oven that wasn't turned on.

"Maybe the prices that multinationals demand are not realistic", Jackson says. "As consumers, we've also gotten lulled into thinking we can have \$5 jeans. That's a broken system."

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