

Statement of Position on Mandatory Utilization for Social Compliance Auditors

In the development of best guidance for supply chain social compliance, the Global Social Compliance Program (GSCP) established recommendations or guidelines for many elements of supply chain social compliance programs. Among the elements for which guidance was provided are auditor competence, auditor performance and management by audit service providers. Within the elements for audit service providers is a specific guidance related to utilization – time in the field – for social compliance auditors.

As outlined in the GSCP Reference Tool for Auditing Competence - Requirements of Audit Bodies; Organization and Management; Personnel:

- 2.1.8 The auditing body has employment conditions which ensure that auditors spend normally no more than two thirds of their contractual working hours conducting audits. Included in this time will be travel time to and from audits, but excluded are report writing and any other job-related duties such as training (including on-site training).

It is the understanding of the International Federation of Inspection Agencies (IFIA), which represents a number of major audit service providers, that these guidelines were developed in an effort to address two fundamental concerns:

- Quality of social compliance audits, and
- Working conditions for social compliance auditors

Increasingly, these recommendations or guidelines have been presented as requirements by clients and collaborative programs – creating significant concerns on the part of the professional service providers who comprise the industry.

IFIA recognizes the responsibility of audit companies to manage their businesses within legal structures and with integrity. We are committed to execution of quality professional services and working conditions for individual staff that are in complete alignment with established laws, regulations and standards. In all cases, IFIA member companies have well established quality management processes and protocols as well as robust human resource management systems. While the IFIA member firms share the concerns and objectives of the GSCP – there is not alignment on the use of an arbitrary auditor utilization metric as the mechanism to attain these shared objectives.

As outlined below, the use of an arbitrary and largely undefined auditor utilization metric creates the risk of significant negative and unintended consequences because it does not relate well to how the market actually works. IFIA therefore believes that this measure will not advance the stated overall objective.

Requirement Definition

The utilization guidance as currently defined does not include any specific frame of reference with respect to time. The period over which an auditor is to spend two-thirds of the time in the field is not well defined and could result in consideration of periods ranging for individual weeks; to months; to quarters; to annual periods. Depending on the period being considered, the implications from an operational, business, and auditor personal perspective can vary radically. In the absence of more complete guidance the final ramifications of any requirement cannot be effectively determined.

Realities of the market for provision of auditing services

The single largest cost element for audit companies is wages to auditors. This is followed by the expenses paid to deploy the auditors. Currently, most audit firms utilize an annual target for auditor utilization that takes into account holiday periods, seasonality based on factory schedules, training and other responsibilities. These annual targets range from 75% to 80%. The impact of reducing these rates by at least 12% - with the impact increasing significantly to the extent the measurement period is reduced – will undermine the viability of a service that is increasingly being commoditized, thus preventing audit companies from fulfilling their function as a support service to brands, retailers and other supply chain participants. Fundamentally, this will have one or more of several unintended consequences:

Cost Implications While service providers cannot – and will not – have any dialogue on pricing, applying the GSCP guidelines should be weighed with the willingness of the brands, retailers and factories to bear the likely increase in fees. Some brands and/or retailers may choose to reduce the frequency of audits, which would have an unintended consequence to risk management.

Auditor Compensation

Were audit service providers to maintain margins through managing the associated cost of labor – the implementation of the rule would result in a decrease in salaries for auditors. Fundamentally, this is contrary to the objectives of increasing the competency of auditors and the quality of audits –as firms could no longer compete for the same level of talent, and conditions for those auditors who remain would be negatively impacted.

Finally, there is a real risk that some of the current firms would exit the market as the returns would not be sufficient in the light of the risks associated with the service. This would have a potential negative impact on the quality of service available in the market due to the reduction in market participants particularly if some of the largest, most professional firms were to exit the market.

Auditor Experience and Development

One of the key considerations in the development and advance of individual auditors is field experience. By reducing the number of audits that an individual auditor is performing by up to 25% - the time for advance from entry level through lead auditor will be extended. This impacts the audit companies' ability to meet the growing demand for competent auditors. Compensation levels could have a negative impact on retention of auditors and the ability to attract the best talent.

Auditor Compensation

In many cases – based on the expansion of program requirements – auditors work overtime on the days where audits are executed. Additionally, in many cases, auditors receive allowances for travel and meals on the days where audits are executed. To the extent there is a reduction in the number of days an auditor is deployed there will be a reduction in this compensation received by individual auditors. This decrease in compensation – particularly when taken in relation to other potential changes noted above – could have a negative impact on retention of auditors and the ability to attract the best talent.

Talent Dilution

With the reduction in utilization, there will necessarily be an increase in the number of engaged social compliance auditors – in an environment where the number of auditors is increasing based on the growth in the market. As the number of auditors increase – potentially by as much as an incremental 25% beyond the growth in the market as a result of the implementation of an arbitrary decrease in utilization - the ability to identify, recruit, train and retain appropriate individuals becomes an increasing challenge. There will be a point where there will be a reduction in the quality of the talent being engaged into the system without significant changes in personnel structures, which could ultimately result in a decrease in the overall quality of social compliance auditors.

As all IFIA members struggle to actually meet the new arbitrary metric, field auditors will inevitably find themselves rushing to complete audits within the time parameters set for them. This may very well negatively impact thoroughness and, therefore quality. If this system is set up like the airline crews maximum hours systems, it will result in audit delays as replacements are brought in to complete audits.

Consistent Enforcement

While the IFIA member companies involved in the provision of supply chain social compliance audit services would expect to abide by any mutually agreed requirements related to auditor utilization – there is a real concern that some other firms may not meet the associated requirements – creating an inappropriate competitive advantage. There have been instances where firms have noted that they are “meeting these requirements



by only having auditors deployed 3 days per week for a particular client or program”. At a minimum, this approach is fundamentally inconsistent with the spirit of the requirement – and would put any firm meeting the requirement at a competitive disadvantage. Given current structures – and the absence of a recognized professional standards accreditation and management system for social compliance auditors – there is no body to holistically consider the activities of individual firms, and effectively measure and manage compliance with requirements such as those contemplated by GSCP.

Conclusion

IFIA members – and all reputable, professional firms – involved in the provision of supply chain social compliance audit services are committed to improving the quality of service. There are several levers of change – including training and education programs, field evaluation efforts, and performance measurement and evaluation systems – that are being utilized and will continue to be enhanced.

Fundamentally, all firms have a shared interest in top quality execution – as the worst performers are the well into which the brush is dipped to paint the collective. There is a real interest in active engagement in identifying new and innovative ways to enhance quality – while maintaining the commercial viability of the system.

IFIA therefore requests reconsideration of the use of an arbitrary utilization metric as a mechanism to address identified concerns related to audit quality and auditor working conditions. Collectively, IFIA members stand ready to engage with GSCP and other interested stakeholders to identify and develop mechanisms to address the fundamental, shared concerns related to audit quality and auditor working conditions.

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