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February 2022

# amfori BSCI

# Local

# Calibration

# Meeting

# Minutes

November & December 2021

# amfori BSCI: Local Calibration Meeting

## Minutes

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### Introduction

At amfori, we believe auditing is key for businesses' approach to responsible due diligence. We are committed to continuously developing new features and perspectives to improve amfori's audit quality. To reach this goal, we incorporate expertise of external partners and stakeholders to supplement our internal tools and processes.

We pride ourselves on working with leading industry auditing companies, meeting highest quality and integrity standards. Alongside rigorous monitoring partner acceptance criteria, stringent auditor qualification and training scheme as well as pioneering audit quality programme, amfori regularly calibrates with its monitoring partners on global and local level.

Through Local Networks, amfori creates a platform to engage with its stakeholders, promote initiatives, facilitate view exchange and experience sharing as well as to discuss local challenges that amfori BSCI auditors face. Monitoring partners not only receive regular updates and guidelines but also and have the opportunity to raise issues and concerns that they need amfori's support on.

### amfori Local Networks

With members coming from all parts of the world and their supply chains spanning across different continents, it is amfori's priority to provide them with global and local support. As the most significant share of amfori BSCI members' business and auditing activity concentrates in China, Bangladesh, India, Southeast Asia and Turkey, Local Calibration Meetings are held annually in these regions to preserve the local perspective on discussed issues.

This year's round of Local Calibration Meetings took place in November and December 2021 as detailed in the table below:

Local Network	Date of the Local Calibration Meeting
Turkey	22 <sup>nd</sup> November 2021
China	24 <sup>th</sup> and 26 <sup>th</sup> November 2021
Bangladesh	30 <sup>th</sup> November 2021
Southeast Asia (SEA) <sup>1</sup>	13 <sup>th</sup> December 2021
India	14 <sup>th</sup> December 2021

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<sup>1</sup> In the context of amfori BSCI, Southeast Asia Region covers following countries: Cambodia, Indonesia, Malaysia, Myanmar, Thailand and Vietnam. This year Pakistan was also included in SEA sessions due to significant volume of audits requested in this country.

## Participants

A total of 106 auditors representing 13 amfori BSCI Monitoring Partners took part in the series of Local Calibration Meetings held in Q3 2021. Additionally, representatives of 13 amfori members were also invited to attend selected sessions according to the scope of their business interest.

Due to the persistent international travel restrictions and stringent safety requirements in some part of the world, Calibration Meetings in China, SEA, Turkey and India were held virtually. Pandemic situation in Bangladesh improved enough to allow face-to-face meeting.

## Agenda

To adjust the scope of topics being discussed and address most essential issues that amfori BSCI monitoring partners encounter in their auditing activities, a survey had been conducted ahead of the calibration meetings in order to gather participants' particular interests and informational needs.

Based on the feedback gathered from amfori BSCI scheme managers, members and amfori Freshdesk, Network Representatives in alignment with Social Programmes Team in Brussels came up with the following outline agenda:

Topics	Bangladesh	China	India	SEA	Turkey
amfori Updates	✓	✓	✓	✓	✓
Audit /Quality Programme	✓	✓			
amfori Sustainability Platform	✓	✓	✓		✓
Zero Tolerance Protocol	✓	✓	✓		✓
COVID-19 Findings	✓				
amfori BSCI System Revision Update	✓	✓	✓	✓	✓
EU Due Diligence (DD) Updates			✓		
Memos		✓		✓	
Country Specific Issues	✓	✓	✓	✓	

While there was a general framework of topics to be explored, primary focus of each of the 5 Local Calibration Meetings was to ensure the local perspective on more general problems and to address some localized, country specific issues.

## Discussions

Key discussion points on 2021 round of Local Calibration Meetings include:

### amfori updates

Presentation of statistics on amfori BSCI auditing activity in 2021 vs 2020 as well as major industry news and trends.

## Audit Quality Programme<sup>2</sup>

The aim of the Audit Quality Programme (AQP) is to set high standards for amfori BSCI auditing activities and to monitor their quality and reliability for the benefit of its members. Performance assessment of auditing companies and auditors as well as the review and analysis of audit reports are amongst major factors assuring quality of the amfori BSCI cycle.

On Local Calibration Meeting in China, a brief AQP update was followed by Q&A session on the topic, e.g. on the scheme management office (SMO) auditing criteria in 2022 and applicability of Audit Quality Programme by monitoring partner integrity concerns. The schedule of AQP activities for 2022 will be shared with amfori monitoring partners in Q1 2022.

## Audit Integrity Programme<sup>3</sup>

The meeting in China included a discussion panel on “*How to Combat Unethical Business Behavior (UBB)*” hosted by Yolanda Kwok, amfori Network Representative in Greater China, and Frazer McFadyen, amfori Risk and Monitoring Lead. A group discussion and brainstorming session followed, covering the following points:

- The review of RSP function,
- Major challenges the auditing firms face in regard to exposing fraud attempts,
- Major trends contributing to the fight against the UBB (e.g. growing popularity of traceable digital currency, ethical mindset of decisionmakers, amfori’s integrity)
- Suggestions on how to tackle the problem (e.g. member trainings, discussions and enhanced collaboration with various stakeholders, more focus on semi-announced audits etc.)

With reference to eradicating issues around RSP function, members see amfori’s role in:

- Providing consistent due diligence practice among countries
- Provide more transparency on the Sustainability Platform (i.e. let the auditing companies view the full auditing history of the auditee)
- Set a communication channel between amfori, associated brands and the monitoring partners for easy information exchange on the topic

## amfori Sustainability Platform<sup>4</sup>

In 2021 a major milestone on amfori roadmap has been reached as the migration process of amfori members to the new Sustainability Platform has been completed. The amfori Sustainability Platform enables faster, more data-driven and collaborative sourcing for members.

This is a significant improvement and, in the initial period of operation of the new platform - a novelty for some members and for monitoring partners. Therefore, the topic has been given a lot of attention during both Global and Local Calibration Meetings this year. amfori makes every effort to answer all questions and address issues that may arise along the way so that both members and auditing companies feel comfortable operating the new platform.

During Local Calibration Meetings in China, India and Turkey, Q&A sessions were held on the new platform functionalities, technical aspects of platform operation and the new features to be developed in 2022. Monitoring partners in other locations were encouraged to submit their questions about the platform through online survey. These will be gathered, answered and shared with stakeholders in the form of FAQ.

Auditing companies expressed the need to receive the same training on the new platform, its functionalities and updates as the new amfori members receive.

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<sup>2</sup> For more information on Audit Quality Programme, please visit: <https://www.amfori.org/content/audit-quality-programme>

<sup>3</sup> For more information on Audit Integrity Programme, please visit: <https://www.amfori.org/content/audit-integrity-programme-0>

<sup>4</sup> For more information on amfori Sustainability Platform, please visit: <https://www.amfori.org/content/amfori-sustainability-platform>

## Zero Tolerance Protocol<sup>5</sup>

Severe human rights violations such as forced labor or sexual harassment require immediate action to protect victims and restore their rights. The amfori BSCI Zero Tolerance Protocol (ZT) helps members identify critical issues in their supply chains and implement remediation. The protocol applies when an audit is confronted with factual and flagrant violations in the areas of child and forced labor, inhuman treatment, occupational health and safety, and/or unethical business behavior.

Presentation of Zero Tolerance statistics was followed by engaging discussions on the protocol, revolving around the main obstacles and challenges that amfori BSCI monitoring partners encounter with flagging ZT. Auditors expressed the need for some clear guidance from amfori on:

- when to raise ZT (particularly by health and safety issues and recruitment fees)
- how to close findings
- date back period and remediation process

amfori representatives addressed the issues raised by auditing companies on case-by-case basis, providing some general guidelines on how to proceed e.g. by migrant workers recruitment fees or OHS issues.

amfori emphasizes the importance of professional judgement, local knowledge, and common practice in particular region. Monitoring partners were also referred to the pilot version of “Internal Playbook” that has been soft launched by amfori earlier this year, as a high-level guideline for auditors.

## COVID-19 Findings

In 2021 world economy has witnessed continued disruption to the international supply chains. With new variants of COVID prompting another round of lockdowns and restrictions, both business and auditing activity of most amfori members have been severely impacted. amfori has been supporting its members in their pursuit of sustainability goals and providing guidance and regular updates to amfori BSCI monitoring partners to maintain the continuity of the auditing process.

COVID-19 findings are being regularly discussed with amfori BSCI monitoring partners during Global and Local Calibration Meetings. In this year’s round of Local Calibration Meetings, the following observations have been shared by auditing companies in relation to auditing under COVID-19:

- In some countries factories have been loosening requirements on working hours due to COVID-19 pandemic.
- Some certification processes (e.g. first aiders certifications) are being temporarily suspended due to COVID-19 restrictions, which affects OHS risks.

## amfori BSCI System Revision Update

amfori BSCI System Revision is a two-pronged process encompassing:

- Revision of Code of Conduct (CoC)<sup>6</sup>
- Revision of System Manual and Audit Methodology

Monitoring partners were provided with detailed update on the current state of progress of the amfori BSCI System Revision process, including major steps and achievements so far and the overall timeline for steps still to be taken.

The revised Code of Conduct was launched in December 2021, following months of analysis, discussions, and public consultation. The most important changes introduced to the CoC concern:

- values the signatories commit to follow,

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<sup>5</sup> For more information on amfori BSCI Zero Tolerance Protocol, please visit: <https://www.amfori.org/news/new-system-manual-feature-updated-zero-tolerance-protocol>

<sup>6</sup> For more information on amfori BSCI Code of Conduct, please visit: <https://www.amfori.org/content/amfori-bsci-code-conduct->

- some minor updates on naming of the principles
- terms of implementation (incl. information management and monitoring in the supply chain)

The updated CoC has entered its grace period, that is scheduled to end in Q1 2023. Until then, amfori BSCI audits will be conducted against the existing CoC. As for revision of System Manual and Audit Methodology, the process is ongoing. In the following months amfori will focus its efforts on working with experts, project groups and members on these matters. Once the system revision is completed, monitoring partners will be provided with trainings on the new revised system.

## EU DD Updates

During Local Calibration Meeting in India, a brief presentation on latest developments on the EU Due Diligence Law was delivered. The focus was on the projected shape of the new legislation based on the existing international normative frameworks (UNGPs, OECD MNE Guidelines). Additionally, amfori's preparedness for the upcoming changes was discussed, including revision of the existing tools and programmes as well as development of the new solutions (e.g. Speak For Change Programme).

## MEMOS

When new legislation is enacted or a change in amfori BSCI system is made, amfori issues a memo to update its monitoring partners and provide guidance on how to proceed in certain auditing circumstances.

On this year's round of Local Calibration Meetings, practical application of *Memo on Historical Buildings in China (21/10)* and *Memo on Fair Recruitment (21/05)* were discussed in China and SEA sessions accordingly. Monitoring partners provided their feedback on new updates and had a chance to ask questions. Auditors expressed the need for some clear guidelines on the recruitment fees issue.

## Practical Auditing Issues

Apart from the specified agenda items, participants of each of the 5 Local Calibration Meetings had an opportunity to raise issues concerning different aspects of the auditing activity. The following matters were brought up by monitoring partners and addressed by amfori Social Programmes team members:

- participation and role of consultants in factory audits
- how do deal with falsified documentation issues
- confidential comments
- living wage calculation (including living wage in SPA)

## Country Specific Issues

The following country specific problems were discussed during 5 Local Calibration Meetings:

### *The Impact and Outlook of Power Shortage in Supply Chain in China (LCM China)*

Monitoring partners admit that the actual impact of power cuts on auditing activity was less severe than expected. As Chinese government usually notifies producers in advance of the power shortage, majority of audits can be rescheduled on amfori Sustainability platform.

Auditing companies emphasized the importance of close communication with the RSP to minimize the impact on audit volume. Monitoring partners believe that in 2022 power shortages will be less severe than in 2021.

### *Personal Information Protection Law (PIPL), Data Security & Cybersecurity Law (LCM China)*

The Personal Information Protection Law (PIPL) is a federal data privacy law that came into effect in November 2021. Adding to the wide range of data protection laws in China, including Cybersecurity Law and Data Security Law, PIPL lays ground rules around how data is collected, used, and stored. It also outlines data processing requirements for companies based outside of China, including passing a security assessment conducted by state authorities.

amfori BSCI monitoring partners agree the new legislation is expected to have a significant impact on their business and auditing activities on pre-audit, interview and post-audit stage.

Auditing companies declare they comply with the Cybersecurity Law regulating data transmission between China and foreign countries, however some of them had decided to store the audit data within China to avoid difficulties.

#### *Migrant Workers Recruitment Fees in Taiwan (LCM China)*

Monitoring partners find it challenging to deal with migrant workers recruitment fees by amfori BSCI audits as amfori's regulations on the matter are, according to the auditing companies, very stringent compared to other schemes. They expect amfori to provide a clear guidance on the topic, including e.g. effective date and time frame, methodology of reimbursement, and on how to put a remediation plan in place. Additionally, amfori BSCI monitoring partners suggested amfori should put more focus on benchmarking against other CSR initiatives.

#### *Labor Law in Vietnam (LCM SEA)*

Introduced in January 2021, Vietnam Labor Law prohibits using workers from 15 to 18 in some specific industries, including heavy industry and dangerous sectors. Practical interpretation of provisions of the new law is sometimes difficult to the auditing companies therefore a group discussion was held to address the most common issues.

amfori directed amfori BSCI monitoring partners to legal acts applicable to questionable issues. Depending on the provisions of local law, specific industries and awareness management, auditors should consider case by case and use their professional judgement to protect young workers.

#### *Current Situation in Myanmar (LCM SEA)*

Monitoring partners reported they have been facing numerous difficulties performing their usual auditing activities due to unstable political situation in the country, particularly:

- Extended travel time
- Phone content checks in check points (sharing political content on social media is now illegal in Myanmar)
- No sense of personal security (numerous military patrols, frequent explosions)
- Protests paralyzing traffic in big cities
- Curfew (most people have to go back home at 8 pm because of the curfew between 10pm to 4am)

Factories also suffer from consequences of the political turbulence in Myanmar:

- Lack of cash to pay wages forces many factories to reduce employment
- Ongoing disruption of public administration makes it extremely difficult to renew documents that have expired
- 60% of factories closed due to lack of orders (consequence of US and EU sanctions)

#### *Insights on domestic migration and challenges in ethical recruitment in India (LCM India)*

Eradicating exploitation from global supply chains should be about more than improving working conditions on factory floors. Many labor issues find their roots in the recruitment process and migrants are considered most vulnerable to deceptive recruitment practices.

India has an estimated 600 million migrants (this includes intra and inter-state migrants), i.e. approximately half of India's population is dislocated. As the country adopts a strategy of rapid urbanization levels of internal migration will increase further. While recruitment practices differ between North and South India, challenges that migrant worker face remain universal and include i.a.:

- Language barriers
- Poor living conditions
- Restrictions on movement
- Challenges in accessing health entitlements
- Lack of unionization / union representation
- Challenges in accessing social security

- Low pay, often below the minimum wage

amfori BSCI provides the expertise and tools to help its members map their supply chains and identify areas where there is risk of exploitative recruitment practices and define preventative measures accordingly. In 2021, amfori aligned with the International Organization for Migration (IOM) in India, establishing cooperation and mutual non-monetary assistance, in relation to promoting fair and ethical recruitment and protection of migrant workers, sensitizing businesses on human right issues, combatting human trafficking in national and global supply chains, and building from a mutual longstanding commitment.

## amfori next steps

This year's round of Local Calibration Meetings proved very productive both for monitoring partners and amfori team members. Good level of interaction and engagement reflected in fruitful discussion panels and case-studies facilitated sharing knowledge and experience among major stakeholders. Conversations on the practical aspects of the latest amfori BSCI updates and developments led to distinguishing some key improvement areas that amfori needs to take action on in 2022:

1. Enhance communication with amfori BSCI monitoring partners to clarify amfori's expectations and address their challenges:
  - a. Calibrate auditors more often (twice a year)
  - b. Provide comprehensive and detailed answers to ACs queries
  - c. Provide clear guidelines and instructions, particularly in regions with volatile economic and political situation
  - d. Consider issuing monthly newsletters for auditors with recent updates
2. Issue detailed guidance on:
  - a. Recruitment Fees, particularly:
    - when to raise ZT
    - how to close findings
    - date back period and remediation process
  - b. Personal, Cyber & Data Security Law in China
    - how to adhere to changes in 2022
3. Provide training for auditors on the new Sustainability Platform
4. Prepare a pool of Frequently Asked Questions (FAQs) on the new Sustainability Platform, addressing all questions relating to new and existing functionalities, and share with stakeholders
5. Provide due diligence practice consistent among countries as a step to tackle the issues around RSP
6. Focus on India
  - a. Develop and integrate the overall responsibilities of the new Auditing Officer in India with APAC and global audit team
  - b. Develop a framework for the development of Anti-Bribery/Anti-Corruption Taskforce in India
  - c. Support the development of Audit Quality Programme and Direct Monitoring in India

While virtual meetings are considered safe, cost-effective and manageable solution in the times of pandemic, they have their limitations (e.g. connection problems, time zone issue, uninvited guests attending meetings). Country representatives see the need to hold face-to-face conferences when the COVID-19 restrictions allow.

Based on the issues discussed in this year's Local Calibration Meetings and informational needs reported by amfori BSCI monitoring partners, amfori network representatives drafted the list of topics that should be touched upon on the next round of meetings:

- Follow-up topics from 2021
- amfori BSCI Sustainability Platform- updates, improvements, practical aspects, Q&A
- Local regulatory matters

- Zero Tolerance and Anti-Bribery Policies
- Discussion with India Auditing Officer

*--- End of minutes -*

