



Brand Performance Check

Takko Holding GmbH

October 05, 2012

FWF member since: October 01, 2011

Sources of information

Interview with Mr. Alexander Mattschull (Managing Director)

Interview with Mr. Thomas Pahl (GM Purchase Department & Product Development)

Interview with Ms. Birthe Matschull (GM Purchase Department & Product Development)

Interview with Ms. Melanie Richard (Head of Quality Assurance knit, knitted Sweater & Socks)

Interview with Mr. Matthias Kraus (Head of Purchasing, circular knit & knitted sweater)

Interview with Mr. Malik Absalon (Acting Head of Quality Assurance woven, Accessories & Underwear)

Interview with Mr. Radek Sorcik (Head of Purchasing woven, Accessories & Underwear)

Interview with Ms. Bettina Heusinger von Waldegg (Assistant General Manager)

Interview with Ms. Inga Schuerhoerster (Managing Director Assistance)

Interview with Ms. Jutta Melchers (Head of PR)

Interview with Mr. Markus Otte (Divisional Director Sales Operation, Store Audit and Inventory)

Annual report and work plan

Archived documents

Database FWF

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Introduction

In October 2012 Fair Wear Foundation (FWF) conducted a Brand Performance Check at Takko Holding GmbH (hereafter Takko). The performance check is a tool for FWF to verify that Takko implements the management system requirements for effective implementation of the Code of Labour Practices (CoLP), as specified in the FWF Charter.

Starting point for the performance check has been the work plan for 2012. FWF tailored the performance check to the specifics of the management system of Takko in order to assess the key issues of interest. During the performance check, employees of Takko were interviewed and internal documents have been reviewed.

FWF developed this report on the basis of findings collected during the performance check. The report contains conclusions, requirements and recommendations. If FWF concludes that the management system needs improvement to ensure effective implementation of the Code of Labour Practices, a requirement for improvement is formulated. The implementation of required improvements is mandatory under FWF membership. In addition, FWF formulates recommendations to further support Takko in implementing the Code of Labour Practices. The numbering of the requirements and recommendations correspond with the numbers of the conclusions.

This report focuses on those aspects of the management system of Takko that have been identified as key areas of interest for 2012. As FWF approaches the implementation of the Code of Labour Practices as a step-by-step process, it is well possible that performance check reports of subsequent years will focus on different aspects of the management system.

FWF will publish the conclusions, requirements and recommendations of all performance checks on www.fairwear.org. FWF encourages Takko to include information from the performance check report in its social report.

Executive summary

Takko is in the process of implementing FWF's management system requirements. Takko employs practices which support the effective implementation of the FWF Code of Labour Practices; however progress in several areas is still needed.

Takko has approximately 300 suppliers located mainly in China, Bangladesh and India. Takko began working on social standards within their supply chain before joining FWF.

Takko is well-structured and has strong documentation and filing systems. All data is collected at their headquarters in Friedrichsdorf in Germany (another headquarters is located in Telgte). Suppliers are informed of Takko's FWF membership and the Code of Labour Practice is signed by many of Takko's suppliers.

Takko reports difficulty in obtaining full data from all of their existing suppliers, and the supplier register handed in to FWF for this Brand Performance Check is incomplete. FWF cannot at this time verify whether Takko meets the monitoring threshold set out in the FWF requirements. FWF has set a deadline of December 31, 2012 to receive an updated supplier register. A new threshold assessment will be held during the 2013 Brand Performance Check, by which time Takko should meet FWF's threshold standards for a member at their second year of FWF affiliation.

Takko has invested considerably in training of personnel both at the head office as well as in the production countries. Takko staff responsible for social standards participated in the FWF seminar for affiliates in April 2012. Takko staff in Bangladesh and India has been trained by FWF staff and local experts. Chinese staff has participated in a seminar on FWF requirements.

Takko's investment in training of personnel is showing results. Audit report quality in Bangladesh and India has improved noticeably following the trainings. Audits conducted after the trainings have detected more issues at factories than earlier audits, which indicate that staff knowledge regarding FWF standards has improved. As a next step, Takko should work on more systematic follow-up of audit results.

Takko strives to have consistent production of their clothes at the production sites throughout the year. It is policy to encourage production during periods when extra production capacity is available at factories. Such policies help to reduce peak demand on factories which can lead to excessive overtime.

Positive findings

Conclusions

1. Takko is well structured and has strong documentation and filing systems.
2. Takko offices in Bangladesh and India have been trained by FWF on how to meet FWF standards for monitoring. The quality of audits conducted by Takko staff has improved following the trainings. Audits conducted after the trainings have detected more issues at factories than earlier audits, which indicate that staff knowledge regarding FWF standards has improved. Takko has developed their own audit manual.
3. Takko employs a policy of encouraging production during low periods when extra production capacity is available at factories. Such policies help to reduce peak demand on factories which can lead to excessive overtime.

1. Sourcing

Conclusions

1. Main production of Takko is in China, Bangladesh and India, with a small amount sourced from other countries. Takko has an offices in Bangladesh, India and China. No matter where Takko sources from, all products are labeled with the company's own brand logos.

The data available shows that the percentage of intake volume coming from suppliers where the relationship is shorter than one year is approximately 5%. The percentage of intake volume coming from suppliers where the relationship is longer than five years is approximately 10%. Takko strives for long-term relationships with suppliers; however this is not a written policy.

Takko has a leverage of at least 10% at most of their production sites, at some of the production sites up to 100%. Most factories account for 1% or less of Takko's total production. Takko does not source in countries covered under FWF's [Low Risk Policy](#). Takko does not own any factories. None of the production sites where Takko sources from are FWF member factories.

2. New suppliers are informed at the beginning of a possible business relationship about social standards including the FWF Code of Labour Practice, FWF requirements and production site data questionnaire together with all other Takko relevant information. Suppliers must agree on the CoLP before orders are placed at a new production site. This procedure is a written working policy.

In India and Bangladesh, Takko conducts evaluation site visits when considering new production facilities, however formal pre-audits are not conducted. Visits are conducted mainly by the staff working at the local offices.

The main focus for Takko to place an order at a certain production sites is the production capacity at the production site and quality of products delivered in

earlier seasons. When evaluating suppliers, social standards are only considered when there has been, for example, a complaint filed at the supplier. A system is not yet in place for the ranking of suppliers according to their social standards performance and sharing that data with sourcing staff.

Social compliance is taken into consideration when terminating business relationships. Failure to make improvements when violations of the Takko Code of Conduct are found can ultimately lead to termination of the business relationship.

3. Takko shares their planning with suppliers for key products based on the experience in the last season. The standard lead-time for orders depends on the product and style itself. The majority of products have a lead time of seven to nine months, with others having a four to six month lead time. Re-orders average two to three months.

FWF has conducted a verification audit in China after a complaint where overtime work has been an issue. The audit team has found inconsistencies regarding working hours in the time records and from workers interviews.

Takko does not deliver material and trims to suppliers. The purchase prices are calculated through a cost-sheet approach. For each style, Takko asks for prices at three production sites in at least two countries.

In developing their pricing strategy, Takko considers broad factors which may impact wage levels, (e.g. increases in the Bangladesh legal minimum wages) or material price increases (e.g. increases in cotton prices over the last several years). Labour costs are not analyzed on an individual product basis. Takko has begun to work with the FWF wage ladder, and asked sample production sites for wage information for analysis.

During the verification audit in China, the audit team could not draw solid conclusions on the actual compliance status of wage payments at that factory due to inconsistencies within the documents during the verification audit.

To avoid overtime at production sites, Takko checks the production capacity at the factories before placing orders. This is also done when increasing the order volume at a site. Takko strives to have consistent production of their clothes at the production sites throughout the year. Takko encourages production sites to produce their styles in low-demand periods. Suppliers are responsible for storing products until the specified delivery date, which can lead to additional supplier costs.

All suppliers have to agree from the beginning that Takko will choose some styles to be tested by Intertek. Usually suppliers have to pay those expenses. In cases where this amount is exceptionally high, Takko increases the purchasing price of the article to compensate the suppliers' cost.

To avoid sandblasting in their jeans production, Takko has instructed all suppliers in writing not to use the sandblasting technique. For new suppliers this requirement is included in the information package they receive prior to production start. There is no further information on the prevention of

sandblasting within the finishing mills.

Recommendations

1. FWF recommends that Takko's policy of encouraging long-term relationships with suppliers be formalized into a written document with goals and strategies.
1. FWF recommends that Takko further consolidate their supply base, concentrating on having a smaller number of core suppliers.
2. It is recommended to visit all production sites personally before the start of production. This is also a good moment to talk in detail about FWF requirements and social standards. Pre-audits can further help to have a good understanding right from the start about how well social standards are integrated in the production flow.
2. Evaluation of production sites takes place at Takko with regard to capacity, quality and prices. It is recommended to integrate social compliance of production sites into the decision taking of orders for the concerning production site.
3. FWF recommends that a system be set up to analyze labour costs on an individual product basis.
3. FWF encourages policies such as Takko's which help to reduce peak production demands on factories. In cases where suppliers are asked to store product until the delivery date, FWF recommends brands to check that extra storage costs are adequately covered.
3. FWF is in the process of updating the [sandblasting policy](#). A first version is already on the website for reference and can be used when monitoring sandblasting possibilities in the supply chain. FWF recommends checking during visits that abrasive blasting is not used.¹

2. Coherent system for monitoring and remediation

Conclusions

1. Takko reports difficulty in obtaining full data from all of their existing suppliers, and the supplier register handed in to FWF for this Brand Performance Check is incomplete. FWF cannot at this time verify whether Takko meets the monitoring threshold set out in the FWF requirements. Documentation for India and Bangladesh is markedly stronger and more complete than documentation for China and other production countries.

¹ Even though abrasive blasting may take place at fabric mills rather than in CMT factories, FWF still requires brands to avoid use of this technique.

In order to verify the monitoring threshold, two additional data sources are evaluated by FWF. Takko collects existing audit reports, however documentation of how the quality of these audits have been checked is incomplete. Documentation of how corrective actions have been followed up on at factories is also incomplete.

FWF conducted a verification audit at a production site of Takko in China after receiving a complaint (see chapter complaints). According to the supplier register less than 1% of Takko's total production is produced at that site.

External suppliers, agencies and intermediaries are not included in the supplier register. Documentation provided by most vendors indicates that they do not use subcontractors, however a FWF verification audit in China shows subcontracting was practiced at that site.

2. The staff of the local offices in Bangladesh and India decide on what production sites to audit and when. India has five different audit teams (three persons, all merchandisers and quality managers). The audit process is explained in detail in the Takko auditors' manual and contains a specific list on what issues and documents to check during factory inspections. The new auditors' manual also contains a briefing about FWF requirements. An assessment of how Takko's management strategies affect factory conditions is not yet included in Takko's audit manual.

Takko conducts some follow up activities in response to corrective actions in India and Bangladesh. Responsibilities for follow up for the Indian and Bangladesh factories lie within the local offices. Takko local staff visited production sites regularly to conduct follow up on audits. The follow up process is still focused primarily on status updates, and does not yet focus on implementing changes in cooperation with factory management.

Bangladesh and Indian staff attended a FWF training in summer 2012. Audit report quality has improved noticeably following the trainings. Audits conducted after the trainings have detected more issues at factories than earlier audits, which indicate that staff knowledge regarding FWF standards has improved. Workers' interviews techniques are an area for additional focus in order to fully meet FWF audit quality standards.

There appear to be some communications issues with some of the Chinese staff that result in misunderstandings about, e.g. posting the CoLP, collecting and discussing audit report findings, etc.

In China existing audit reports, conducted by BSCI/TUV, are collected by Takko staff. The staff coordinate the monitoring process for production facilities in China. All other countries are coordinated from the German office.

Collection of data in paper format is organized, however limitations of Takko's database systems make it difficult to follow up on corrective actions.³ Until now Takko did not cooperate with other customers of manufacturers or other FWF affiliates with regard to monitoring and follow-up on corrective actions. However, Takko management is open to do so in case of possible collaborations.

Requirements

1. An updated, complete supplier register needs to be submitted by December 31 2012. A new threshold assessment will be held during the 2013 Brand Performance Check, by which time Takko should meet FWF's threshold standards for a member at their second Brand Performance Check.1. When including existing audit reports in the monitoring system, the quality should be assessed using the FWF [audit report quality assessment tool](#).

1. Corrective actions from existing audit reports can be a tool to improve working conditions prior to another audit. Audit report findings – no matter what organization has done the audit report – should be integrated in the company's monitoring system and followed-up on.

1. External suppliers, agencies and intermediaries need to be included and clearly identified in the supplier register. All should be informed about Takko's affiliation to FWF and FWF requirements.

1. The supplier register has to include all subcontractors used for Takko production. Most suppliers report not using subcontractors for CMT work; it is important to check the accuracy of such statements when conducting an audit.2. Audit quality improvements should continue to be supported until audits fully meet FWF [quality requirements](#). Special attention should be given to adding staff with social standards experience to the local teams.

2. Takko should initiate more of their own audits, especially in China.

Recommendations

2. FWF recommends Takko staff in the local offices in India and Bangladesh to coordinate the follow up of corrective actions of the existing reports. The Takko CSR person in Germany should check whether this process is done in a consistent manner.

2. Existing audit reports and their findings should be taken into account before agreeing on new audit dates. This could save time and money on all sides and makes it possible to see which ones need priority. In the meantime, the audit team can check on improvements of existing findings and their implementation towards good social standards.

2. FWF recommends an update to the Takko audit policy to ensure an assessment during each audit of how Takko management practices affect conditions at each factory. This policy should be included in the Takko audit manual.

2. To improve communication it is recommended to arrange appropriate staff capacity (enough people, with proper language skills and awareness for textile production including social standards) in China to ensure that follow up of



monitoring activities is done systematically and without major misunderstandings. In India and Bangladesh, FWF recommends the addition of specialized personnel with experience on social auditing to conduct workers' interviews.

2. More capacity is recommended in Germany to register all the information from audit reports into a database to enable Takko to follow up audit findings in a consistent and systematic manner.

3. Complaints procedure

Conclusions

1. Takko has a responsible person to handle complaints. There is no internal written procedure for handling and following up on complaints, and sharing this information internally. The verification audit done by FWF in China found that the CoLP was hung up at this site. Takko has a formal procedure to distribute the CoLP to all suppliers, and the posting of the CoLP is checked by Takko staff when they directly conduct audits. The procedure does not include a mechanism to ensure that the CoLP is permanently posted in other factories.

Whether the Code of Labour Practices including the complaints handler number is posted at the production sites is checked in India and Bangladesh by the local office staff. There is no further check in the other production countries. Takko reports that in India the CoLP has been hung up in all the factories, although in some cases the complaints handler name and number was changed.

German Takko staff travelling to the production sites include the CPO, two heads of purchasing and two general managers. Production sites visited are checked mainly on health & safety issues visible during factory visits.

2. Takko received one complaint from a worker in a Chinese factory. The plaintiff was concerned about coaching of workers (during a previous audit done by another organization), excessive and forced overtime, insufficient overtime compensation, restriction on resignation labor contract and child labor. The FWF factory verification audit carried out confirmed issues raised by the plaintiff regarding coaching of workers and excessive overtime. FWF informed Takko about these conclusions from the complaints investigation in May 2012. Takko's team went to the factory in July. The visit included a discussion about all of the points from the CAP from FWFs audit including workers coaching, wages, overtime and occupational health and safety. Dates for corrective action were agreed upon. Timeline agreed upon is until 2015.

Requirements

1. FWF requires Takko to ensure that the Code of Labour Practice is hung up at the production sites and includes accurate contact information. This check can

be done during personal visits or by asking the management of the production sites to send a picture of the posted Code.

2. The timeline to work on overtime and wages (2014/15) is too long. FWF requires Takko to set a new date to monitor improvements to follow up on the complaint within six months.

Recommendations

1. FWF recommends having a clear written procedure how to handle complaints.

1. It can be useful to establish a list on what German staff can check at production sites. FWF also recommends taking pictures from the production site to share with colleagues in Germany and to have a better impression and understanding of the production place.

4. Labour conditions and improvements

Conclusions

FWF believes that transparency regarding working conditions in factories is of added value in working towards compliance with labour standards. Based on results of audits carried out by FWF teams to verify improvements, FWF has drawn up an overview of improvements in labour conditions in factories. The overview is annexed to this report. The overview includes results of audits by FWF local audit teams. Results of audits by other initiatives are not listed.

1. FWF has conducted one verification audit at a production site in China. This audit was done to verify a complaint (for details please refer to chapter on complaints). The factory had been audited by BSCI earlier.

No areas for improvement could be found in the core labour standards: employment is freely chosen, no discrimination in employment and no exploitation of child labour.

The Code of Labour Practice was hung up but worker interviews showed that workers are not aware of the Code.

The audit team could not rule out the possibility that some documents on e.g. working hours, overtime and payments were falsified. Workers often do not receive at least one day off in a 7-day period. Social insurance data and annual bonus contribution were not available for review.

The factory uses subcontractors for Takko production. Subcontractors are not informed about the FWF Code of Labour Practice and the factory has not set up a system to monitor its subcontractors' labour standards.

Some non-compliances were found in regards to OHS standards.

Recommendations

1. FWF recommends the factory to join the FWF Workplace Education Programme which offers training to management and workers on labour standards and grievance mechanisms. Further, Takko could offer expert support on correct documentation of working hours, production planning and how to increase productivity. FWF can offer support. Cost sharing between Takko and factory management could be a useful solution to finance the individual consulted trainings.

5. Training and capacity building

Conclusions

1. Internal meetings with Takko employees at Takko Friedrichsdorf and Takko Telgte were given when Takko became a FWF member. These internal meetings were held by the GM Purchase Department & Product Development and reached all Takko staff in Friedrichsdorf, and most in Telgte. The General Manager responsible for social standards and communication with FWF and the Assistance General Manager participated in the two-day FWF seminar for affiliates and the one-day FWF annual conference in April 2012.

The CPO indicated that Takko is about to develop a comprehensive plan to train sales and store staff in a consistent way, given the large number of employees involved. Information about Takko's FWF affiliation is posted on the company intranet.

2. An auditors' training of each two days (theory and practical part inside the factory) was conducted in India and Bangladesh by FWF staff and FWF local auditors. These trainings helped the employees of Takko's local offices to improve the quality of their auditing

Three employees of Takko's local office in China attended an introductory training on FWF requirements. This training was held by FWF staff.

3. Takko keeps all records regarding social compliance in factories in hard copy together with the suppliers' questionnaire and signed CoLP.

All questionnaires are systematically kept which is an important way to collect input for the supplier register and internal supplier evaluation. No decision has been taken yet on how regularly the questionnaire will be sent out and how regularly suppliers will be informed on social standards.

The Takko Code of Conduct was updated after joining FWF and sent to suppliers. The Takko Code of Conduct is not identical to the FWF Code of Labour Practice but contains all necessary information. All signed CoLPs are kept in Germany.

To further improve social standards at production site level, Takko decided to

join the FWF Workplace Education Programme with four production sites in Tamil Nadu area, India. First trainings started in October 2012.

Recommendations

1. FWF encourages Takko to proceed with plans to train store and sales staff about FWF membership, and to provide additional information via internal communications channels.
2. FWF recommends regular updates for local offices on social compliance via internal communications channels.
2. FWF recommends a follow up training of staff in India and Bangladesh to support continued improvements in the area of social standards for those offices.
3. Regular information on social standards and communication to suppliers is necessary to work on steady improvements with regard to social compliance. FWF recommends to Takko that questionnaires be sent to all suppliers on an annual basis in order stay updated on changes in factory operations.
3. FWF recommends including more production sites to the FWF Workplace Education Programme, especially in Bangladesh and China. The programme will help to monitor conditions and train employees and managers about social standards. Local Takko staff are invited to participate in the factory management training section of the programme, and in local roundtable meetings.

6. Information management

Conclusions

1. A person has been designated as responsible for the supply register.
2. The General Manager regularly updates the colleagues in Friedrichsdorf and Telgte on social standards. This includes e.g. audits done at production sites and complaints handed in. The shared information tends to be of a general nature.

Recommendations

2. FWF recommends discussing major social standards findings with all colleagues who are in regular contact with suppliers and to increase the level of detail which is discussed.

7. Transparency

Conclusions

1. Takko participated with FWF in a TV broadcast on social standards shortly before joining FWF. FWF affiliation was communicated to the press when joining. FWF affiliation is part of the company presentation shared with press, partners and other stakeholders. Information about the FWF membership was shared internally in the company newsletter. Takko does not actively advertise their FWF membership to consumers.
2. Information about FWF membership is posted on the website of the member company in correct wording. A link to the FWF website, description of FWF and a description of the implementation of membership is given.

8. Management system evaluation and improvement

Conclusions

1. Meetings about the achievement of goals related to FWF membership are not held in a systematic manner.
2. Information on social standards is gathered from the local offices in India and Bangladesh, partly in China. Takko does not systematically gather and use feedback from agents and manufacturers to evaluate the implementation of the Code of Labour Practice.

Recommendations

1. FWF recommends to include goals achieved related to the FWF membership in regular meetings.
2. FWF recommends Takko to systematically gather and use feedback from agents and manufacturers to evaluate the implementation of the Code of Labour Practice.

9. Basic requirements of FWF membership

Conclusions

1. The work plan for the current year has been received in time.
2. The membership fee for the previous year has been paid.

10. Recommendations to FWF

Recommendations

1. FWF itself is not yet known enough in the German-speaking market. Takko therefore recommends that FWF should raise its profile, especially in Germany.
2. Takko wishes for more pragmatic information from FWF on how to implement findings at production sites.
3. Takko recommends FWF to strengthen its auditing requirements. Auditing up to 90% leaves the risk that affiliates with a high amount of production sites can have many production sites not audited (if they source less than 2% of turnover from those sites).
4. Takko asks FWF to meet deadlines for e.g. publication of country studies.
5. Takko would appreciate having the FWF video in German to train further staff, especially sales and store staff.

Annex. Improvement of labour conditions: summary of most important findings

Factory: China	
Source: FWF verification audit in May 2012	
Subcontracting	Takko's supplier uses subcontractors for 20% of Takko's orders, printing and embroidering processes. Around 20% to 30% of Takko's orders require printing and embroidering.
Workers interviews	38 workers were interviewed prior to the date of the audit. Short interviews were also conducted with the workers on the shop floor on the days of the visit to the factory. In addition, an hour-long meeting was held with 26 randomly selected workers of the factory.
Documentation	Most documents asked for were available. Audit team could not rule out the possibility that documents on working hours, overtime, payroll journals, piece-rate/piece-work calculations as well as payroll deposit slips and payslips handed out to the workers are falsified.
Sourcing practices (price, lead-time, quality requirements)	Orders are placed since 2009. Time for production between order confirmation and arrival of material is sufficient. Production planning and forecast of orders works well. Prices for goods are agreed on in discussion with factory management.
Monitoring system of FWF member company	Factory management states that Code of Labour Practice was received and hung up. Takko organized a training for suppliers in Xiamen on social standards where the sales, general and HR manager participated in. Factory has been BSCI audited earlier.
Management system factory to improve labour standards	Social insurance data and annual bonus contribution were not available for review. Subcontractors are not informed about the FWF Code of Labour Practice. The factory does not set up a system to monitor its subcontractors'

	labour standards.
Communication, consultation and grievance procedure	Code of Labour Practice is hung up but workers are not confident on the internal grievances procedures.
Employment is freely chosen	No areas for improvement.
No discrimination in employment	No areas for improvement.
No exploitation of child labour	No areas for improvement.
Freedom of Association and the Right to Collective Bargaining	Factory does not have a trade union or workers committee that represents the entire workforce to have bilateral communications on labour-related issues with factory management; in addition, workers are not aware of the rights of freedom of association.
Payment of a Living Wage	Inconsistencies regarding working hours were found among the time records provided by factory management, production records collected from workshops, employees' interviews and audit team's observations. The audit team could not draw solid conclusions on the actual compliance status of wage payments.
No excessive working hours	Inconsistencies regarding working hours were found among the time records. Thus, audit team could not draw solid conclusions on the actual compliance status of payment of working hours section. As per information collected from workers interviews, weekly working hours exceeds 60 hours up to approximately. 75 hours. Workers do not receive at least one day off in a 7-day period.
Occupational health and safety	Exit signs are not equipped with lighting. All high-speed knot tying machines are not equipped with goggle. Standing workers are not provided with floor mat and sitting workers are not provided with ergonomic chairs. No exercise is arranged for workers during work intervals to release their body strain.



**Legally binding
employment
relationship**

The audit team was not able to discern the exact number of workers that are covered by the insurances as the financial officer was not present during audit dates. Most workers interviewed state they do not buy insurances.