



11 December 2023

Modern slavery and human trafficking annual statements

Chartered Institute of Internal Auditors

Commercial organisations carrying out business in the UK with an annual turnover of at least £36million are required to publish a modern slavery statement for each financial year.

This guide provides an insight into the content of the annual statement and how internal audit might audit its accuracy and completeness. Through their involvement, internal auditors can provide assurance to the board and audit committee and mitigate potential reputational risk associated with an inaccurate or incomplete statements.

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Background

The **Modern Slavery Act** consolidates slavery and trafficking offences and introduces tough penalties and sentencing rules. The Act also addresses the role of the organisation in preventing modern slavery from occurring in the organisation and their supply chain.

Your business has to comply if it meets the two criteria below:

1. Global turnover £36 million - total turnover is calculated as net turnover of the commercial organisation, meaning the total amount of revenue derived from all global sources (including subsidiary undertakings), after deduction of trade discounts, value added tax and any other taxes based on the amounts so derived. This is a commonly used and understood definition from the Companies Act for businesses to determine their size for the purposes of complying with that Act
2. Carries on a business (the provision of goods or services), or part of a business, in any part of the United Kingdom

These rules apply to public and private companies, and partnerships, wherever they are incorporated or formed and in whatever sector they operate.

The UK ranks 187th out of 198 countries across the world in a new global ranking of the risk from modern slavery. But, despite achieving that laudable score, the UK government has this pernicious issue for business and humanity firmly in its sights. Theresa May has called it 'the greatest human rights issue of our time', hence the need for organisations and internal audit to do something about it.

Statement content

Although the UK government does not specify exactly what should be included in this statement, section 54 (entitled 'Transparency in supply chains etc.' impacts the corporate sector) of the Modern Slavery Act recommends including the following information:

1. The total annual turnover of the organisation.
2. The organisation's structure, its business and all its supply chains.
3. The human trafficking and slavery policies of the organisation.
4. The organisation's due diligence procedure regarding human trafficking and slavery in its business and supply chains.
5. The steps it is taking to diminish the risk of human trafficking and slavery in its supply chains, and in any part of its own business. Identifying where the biggest risk lies will help your organisation achieve this.
6. The effectiveness and success in guaranteeing that human trafficking and slavery is not taking place in the organisation's supply chain. There should be performance indicators in place to measure this.
7. The human trafficking and slavery training available to the organisation's staff.

As we approach the end of the financial year there is now another task facing a significant number of organisations which is the drafting of the modern slavery statement which states how the organisation has complied with the legislation. According to the Home Office's guidance large employers must publish a modern slavery statement within six months of the organisation's financial year end for each financial year ending on or after 31 March 2016.

Government's guidance on the timing of publication

Within the Government's document on [Transparency in Supply Chains etc. a practical guide](#), it states:

'We expect organisations to publish their statements as soon as reasonably practicable after the end of each financial year in which they are producing the statement. Organisations may well choose to publish the statement alongside any other annual or non-financial reports they are required to produce. In practice, we would encourage organisations to report within six months of the organisation's financial year end.'

Organisational approach

All obligated businesses must publish a slavery and human trafficking statement for each financial year. This statement should disclose:

- Either the steps your business has taken during the financial year to ensure that slavery and human trafficking is not taking place in your own operations and in your supply chains; or
- That you have taken no such steps.

Whilst you will fulfil your regulatory requirement by publishing a statement explaining that your company is taking no steps, this introduces additional reputational risk. It isn't expected that many companies will take this option.

The Act states that businesses should publish their statements as soon as reasonably practicable after the end of each financial year for which they are producing the statement. While the Act does not set a deadline for this, businesses should look to publish their statements within six months.

The eight steps

Personnel Today has set out eight steps for HR professionals to follow when drafting their statements.

1. Reiterate commitment to tackling modern slavery.
2. Explain your organisational structure and supply chains.
3. Set out who has responsibility for anti-slavery initiatives in your organisation.
4. Reference to relevant local policies and procedures.
5. State what due diligence of suppliers is carried out.
6. Provide an overview of key performance indicators e.g. requiring staff to complete training on modern slavery; developing a system for supply chain verification; and reviewing their existing supply chains.
7. Explain how your organisation trains staff on anti-slavery measures.
8. Flag up any awareness-raising programme.

Who should approve your organisation's statement?

The Act states:

- If your business is a body corporate other than a limited liability partnership, it must be approved by the board of directors (or equivalent management body) and signed by a director (or equivalent)
- If your business is a limited liability partnership, it must be approved by the members and signed by a designated member
- If your business is a limited partnership registered under the Limited Partnerships Act 1907, it must be signed by a general partner
- If your business is any other kind of partnership, it must be signed by a partner.

Once approved your statement should be published on your website with a prominent link to the statement on your homepage. If the organisation does not have a website, it must provide a copy of the slavery and human trafficking statement to anyone who makes a written request for one, and must do so before the end of the period of 30 days beginning with the day on which the request is received.

Internal audit's role

As internal auditors the annual modern slavery statement goes to the very heart of our organisation's culture, shared values and ethical behaviours and whilst we are sure that the majority of your organisations are absolutely complying isn't it worth checking so we can provide an assurance to our boards and audit committees?

So as internal auditors what ought we to be doing to 'protect' our organisations and potential 'victims' and ensure compliance with the legislation:

- Ensure a risk assessment, has been undertaken either by internal audit or others within the organisation, to assess the relevance of the legislation and areas in your organisation where there is the highest risk of non-compliance, internal audit cannot cover everything so we will need to focus compliance within areas of highest risk.
- Raise awareness of the legislation to key internal audit stakeholders e.g. board and audit committee, perhaps by sharing the Independent Anti-Slavery Commissioner's report with them or perhaps even posting it on your Intranet.
- Review our internal audit plans for 2017/18 to ensure that we have capacity to include a 'health check' in relation to compliance with this piece of legislation.

The eight steps outlined above are also areas of focus and interest for internal auditors. They look at whether the organisation has the evidence to support the statements made, and is the evidence reliable, useful, sufficient and trustworthy (to use internal audit's 'RUST' mnemonic).

Slavery has a devastating impact on individual victims. But it also affects those organisations caught up in increasingly high profile media and online campaigns alleging slavery and human rights abuses. Organisations are under increasing pressure to take action.

These pressures/risks include:

- **Reputational** – including the push from regulators for greater corporate transparency on human rights, such as the modern slavery disclosure duty.
- **Legal** – including the risk of litigation, complaints to the OECD and breaching ethical procurement terms.
- **Financial** – reflecting investor and customer sensitivities and increasing demands for Corporate Social Responsibility performance data as part of tendering processes.
- **Operational** – risks arising from labour disputes and disruption to supply chains.

Key risks

The following are taken from section 54 of the government's guidance.

1. The total annual turnover of the organisation

Risks

- a. The total annual turnover is incorrectly stated and contradicts with the numbers in the annual report and accounts.
- b. The number is understated to avoid the £36 million annual turnover requirement.

Internal audit's role

- Undertake a compliance review and confirm the accuracy of the financial data reconciling the annual statement back to the annual report and accounts.

2. The organisation's structure, its business and all its supply chains

Risks

- The organisations structure is incomplete.
- The supply chain detail is inaccurate and incomplete.

Internal audit's role

- Review the organisation structure to confirm that the most up to date version is being used and that it includes any changes in the structure since the last statement was published.
- Review the supply chain details and seek an assurance and evidence from the procurement team as to the accuracy and completeness of the details published.

3. The human trafficking and slavery policies of the organisation

Risks

- There is a lack of appropriate human trafficking and slavery policies within the organisation.
- There is a lack of evidence to confirm whether or not the policies are being complied with.

Internal audit's role

- Review policies and ensure that there is/are policies covering human trafficking and slavery and that the policies are current in that they have been reviewed and updated in accordance with the policy framework.
- Seek a self-assessment confirmation from the key areas of the business including global branches/satellite offices that they are aware of the policies and staff within their area of responsibility are complying with the policies.

4. The organisation's due diligence procedure regarding human trafficking and slavery in its supply chains

Risks

There is a lack of evidence to demonstrate that the organisation's due diligence process covers human trafficking and slavery in its supply chain.

Internal audit's role

Review the company's due diligence procedure so as to confirm that it includes human trafficking and slavery and for suppliers in higher risk geographical areas seek evidence that the procedure is fit for purpose.

5. The steps it is taking to diminish the risk of human trafficking and slavery in its supply chain. Identifying where the biggest risk lies will help your organisation achieve this

Risks

- There is a lack of evidence around risk assessments being undertaken and that the significant risks are focused on to drive appropriate behaviour.

NB. By assessing incidents of human trafficking or slavery, national laws, and the quality of law enforcement across 198 countries, risk analytics company Verisk Maplecroft found that 115 countries were at high or extreme risk of using slaves.

Internal audit's role

- Review the company's risk registers both operational and strategic to ensure that for a higher risk business human trafficking and slavery are included on the risk register.
- Ensure that risk assessments have been undertaken across countries, sectors and industries relevant to the organisation and challenge whether the risk assessments are appropriate.

6. The effectiveness and success in guaranteeing that human trafficking and slavery is not taking place in the organisation's supply chains. There should be performance indicators in place to measure this

Risks

- There is a lack of performance indicators covering this topic to measure performance and the effectiveness of how the organisation is managing the risk.

Internal audit's role

- Review the performance measures that are currently in place - form an opinion as to whether or not they are appropriate. If there aren't any measures in place consider suggesting appropriate measures so that they might provide an assurance that human trafficking and slavery is not taking place within the organisation.

7. The human trafficking and slavery training available to the organisation's staff

Risks

- There is a lack of evidence to demonstrate that members of staff have undergone training in relation to the legislation or that training is available to key employees e.g. procurement teams.

Internal audit's role

- Seek evidence that training is available and evidence that key members of staff i.e. those in higher risk areas e.g. procurement have undergone the appropriate level of training.

What to do if your organisation uncovers an incidence of slavery or trafficking

What should be done if an incident of modern slavery is identified within your organisation or its supply chains?

Employees

Legislation recommends that employees are encouraged to report any concerns immediately to their employer in the first instance.

Your organisation's anti-slavery policy should make clear to employees the appropriate reporting method: this might be via their line manager, a named compliance officer or via a confidential helpline e.g. whistleblowing/speak-up processes.

Employers

Once an incident of modern slavery is reported, your organisation should consider it carefully and if appropriate progress reporting of it as follows:

In the UK:

If a specific case of modern slavery is identified it should be reported immediately to the police - on 101. However 999 should be called if potential victims are in immediate danger.

The Modern Slavery Helpline (0800 0121 700) also offers information and guidance on action to take where someone is either a victim themselves or suspects they have identified an instance of modern slavery.

Outside of the UK:

The appropriate response to modern slavery identified or suspected abroad will depend on the local circumstances and consideration of what will produce the safest outcomes for the potential victims. It may involve liaison with local industry bodies, trade unions, non-governmental organisations (NGOs) or other support bodies, or contact with law enforcement bodies. This can present a challenge to a business which might consider it lacks the skills and expertise to influence suppliers or take appropriate steps to improve matters on the ground.

Relationships with supply chain: using commercial pressure

Where local company's appear to be failing to address concerns raised, then your organisation should seek to offer more guidance, training and even business incentives to tackle outstanding issues, and if after such support progress is not made, should carefully consider their commercial relationship with that supplier going forward.

These considerations and any actions taken should be recorded in your organisation's subsequent statement.

Potential sanctions/enforcement

The Secretary of State could force you to disclose the statement through an injunction. However, the government have made it clear that it is hoping that pressure from stakeholders will encourage businesses to comply without it needing to bring civil proceedings in the High Court.

Examples of statements

Other organisations' statements provide a useful source of information:

Ford Motor Company

Marks and Spencer

The Christie NHS Foundation - the statement has been signed by the CEO.

AFE Group - the company has its headquarters in the UK but has 15 locations worldwide, including UK, France, UAE, China and Australia.

McMullen & Sons Limited – they use the following as key performance indicators - completion of house audits by area managers and business development managers; use of labour monitoring and payroll systems; and level of communication and personal contact with next link in the supply chain and their understanding of, and compliance with, our expectations.