

Modern Slavery - Assurance and Reporting October 2022

Slavery is about people. It involves use of coercion, threats or deception to exploit victims and undermine their freedom. Slavery still exists; modern slavery is serious exploitation. It may exist in business operations and supply chains and is a violation of human rights. It can include:

- › Human trafficking
- › Slavery
- › Servitude
- › Forced labour
- › Debt bondage
- › Forced marriage
- › Child labour such as slavery or hazardous work

Modern slavery also distorts global markets, undercuts responsible business and can pose significant legal and reputational risks to organisations. Modern slavery is often hard to detect as it can occur via coercion or subtle means. It is embedded in supply chains which can be complex and fast-changing. Also known as trafficking in persons, human trafficking and neo-slavery.

Under the Modern Slavery Act 2018, entities based, or operating, in Australia, having an annual consolidated revenue of more than \$100 million, are required to report annually on the risks of modern slavery in their operations and supply chains, and on their actions to address those risks. In this context, an entity is:

- a. a company which is a resident within the meaning of subsection 6(1) of the Income Tax Assessment Act 1936; or
- b. a trust, if the trust estate is a resident trust estate within the meaning of Division 6 of Part III of the Income Tax Assessment Act 1936; or
- c. a corporate limited partnership which is a resident within the meaning of section 94T of the Income Tax Assessment Act 1936; or
- d. any other partnership, or other entity, whether incorporated or unincorporated, if:
 - v. the entity is formed or incorporated within Australia; or
 - vi. the central management or control of the entity is in Australia.

(Modern Slavery Act 2018, s4)

It is clear that this definition encompasses public sector, corporate sector and non-profit entities.

Modern slavery oversight, assurance and reporting may be a component of an organisation's overall Environmental / Social / Governance (ESG) program. It is one of the risks faced by all organisations and would be expected to be considered by Chief Audit Executives (CAEs) as part of their planning process.

The Institute of Internal Auditors – Australia surveyed CAEs to explore the obligations and responses of Australian organisations in relation to modern slavery.

40 responses were received across a wide section of the economy (Exhibit 1). The CAEs of 30 indicated that their organisations were obligated to report under Australian or other legislation (Exhibit 2).

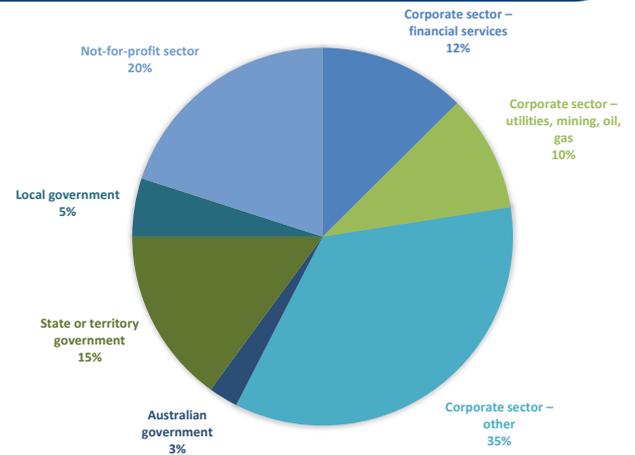


Exhibit 1 – Economic sector of respondents

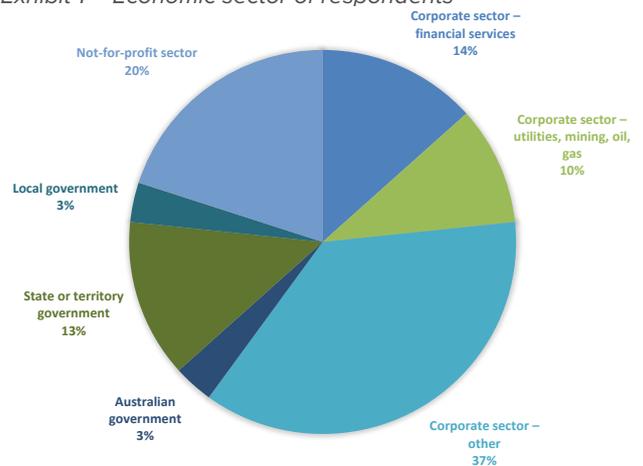


Exhibit 2 – Economic sector of respondents obligated to report

A small number of CAEs were not aware of whether their organisations were required to report.

Familiarity with Requirements

CAEs were asked to rate their own and their organisation's general awareness of modern slavery issues. All respondents assessed themselves as having some familiarity with the concept of modern slavery. In general terms, the CAEs in organisations with an obligation to report assessed themselves as having greater familiarity with the issues than those in organisations without such an obligation (60% 'Expert' or 'Very familiar' against 50% for non-reporting entities). See Exhibit 3.

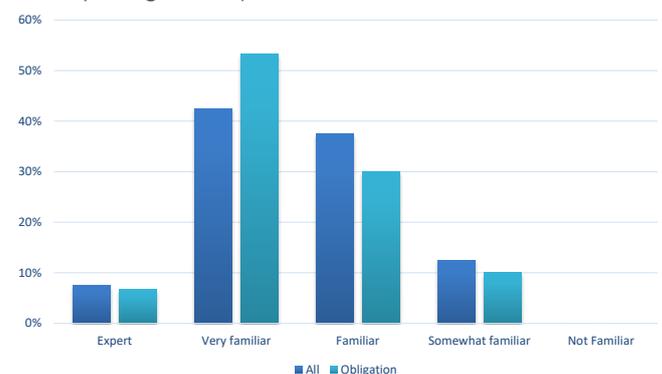


Exhibit 3 – How familiar are you with the concept of 'modern slavery'?

Similar responses were received in relation to the understanding of modern slavery within organisations. Understandably, CAEs regarded their own knowledge as generally greater than that of the organisation as a whole. Of some concern is the small number of organisations with reporting obligations where the CAE assesses the organisation as not being familiar with these issues.

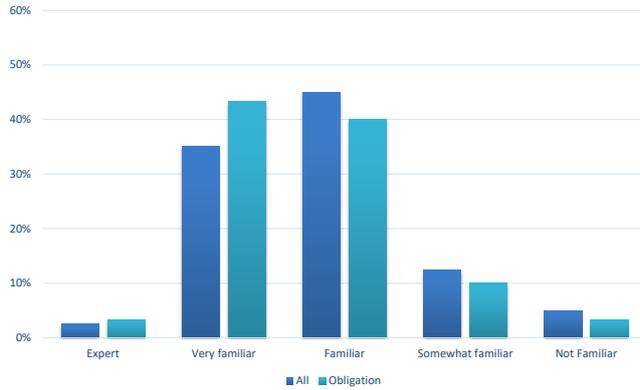


Exhibit 4 – How would you rate knowledge of modern slavery within your organisation?

Risk Assessment and Response

10% of respondents indicated that their organisation had not assessed its modern slavery risk. This included some organisations that had reporting responsibilities. Most had formally assessed their risk and a significant portion had formal treatment and monitoring programs in place (Exhibit 5).

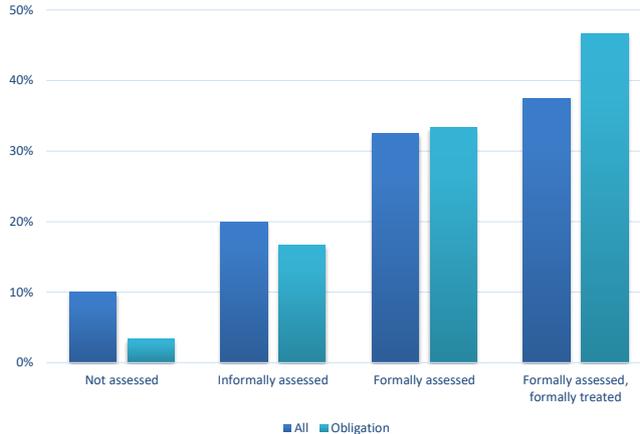


Exhibit 5 – Has your organisation assessed its modern slavery risk?

The usual first step in addressing a significant risk is the development of a policy that addresses it. 70-80% of organisations have defined and are at some stage of implementing a modern slavery policy. The figures for those organisations that have not implemented a policy or have partially implemented a policy suggest that the formulation of a modern slavery policy has been relatively recent (Exhibit 6).

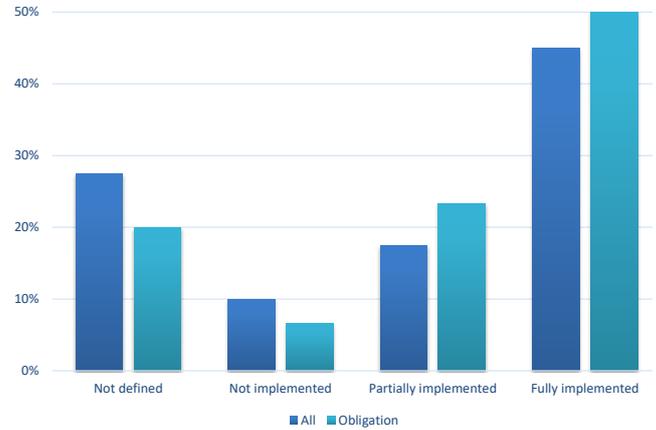


Exhibit 6 – Does your organisation have a modern slavery policy?

Assurance

Monitoring and review (assurance) is an important component of any effective process. In a complex entity it is best if those responsible for delivery have more than one measure of its success. In many organisations this is expressed in the three lines model (The Institute of Internal Auditors, Inc, 2020). Most of those organisations with a partly or full implemented modern slavery policy use aspects of the three lines model in providing the necessary assurance (Exhibit 7).

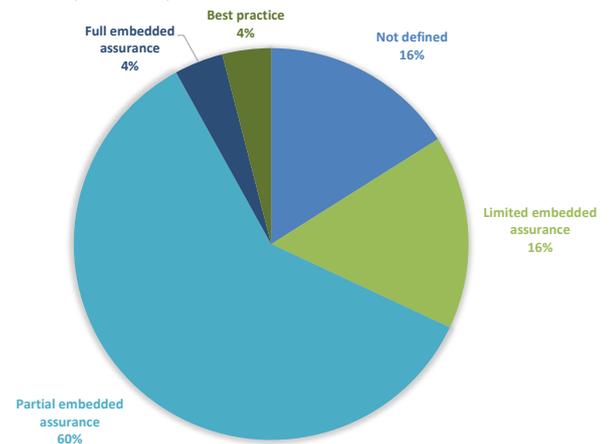


Exhibit 7 – Has your organisation achieved coordinated and embedded modern slavery assurance across a 3 lines model?

Importantly, three quarters of these organisations use more than one source of information in assessing performance. The survey allowed respondents to select as many of the sources outlined in Exhibit 8 as they regarded as important.

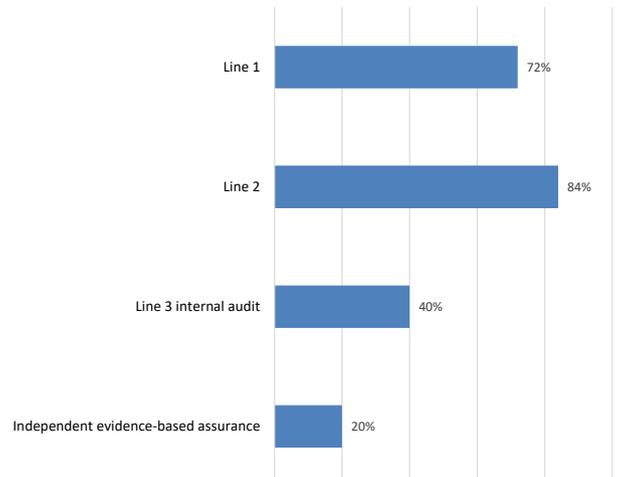


Exhibit 8 – Do in-house modern slavery assurance activities in your organisation include?

Exhibit 9 shows the range of information sources used. Where only one source is used, it is either line 1 or line 2.

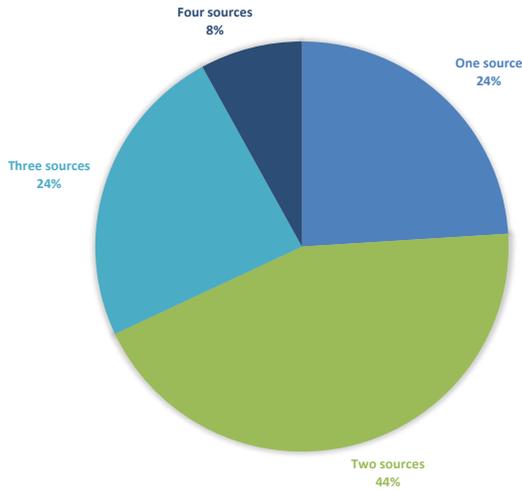


Exhibit 9 – Number of information sources used

When organisations are seeking to validate supply chains, they generally depend on supplier assertions. Only 32% of organisations require independent evidence-based assurance over their supply chains (Exhibit 10).

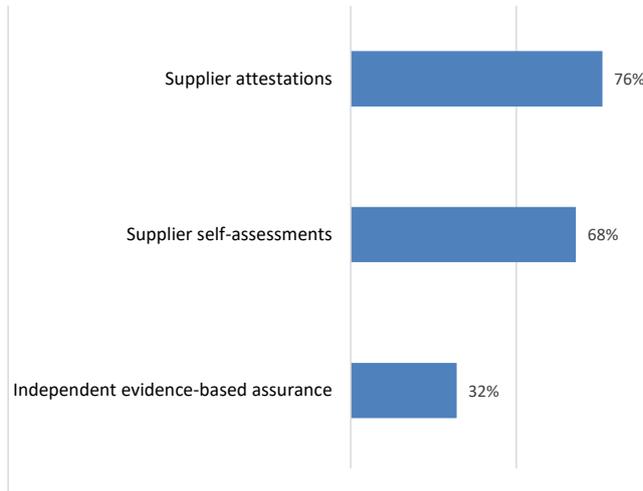


Exhibit 10 – Assurance include

Summary

While it is understandable that organisations with a reporting obligation under the Modern Slavery Act or similar legislation will have a more advanced approach to the risk, there is no reason that other organisations should not assess and respond to the risk. It is a risk faced by all organisations with consequences that go beyond legislative sanction.

This survey has indicated that many organisations without formal reporting obligations have included risks related to modern slavery in their management considerations.

Useful References

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