

# COMBATTING MODERN SLAVERY IN SUPPLY CHAINS: A RESOURCE FOR ACCOUNTANTS

PREPARED BY CPA AUSTRALIA

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## Modern slavery in Supply Chains: Reporting Requirements.

Modern slavery is a risk to business; a risk to brand reputation and public image; a risk in terms of legislation and compliance; a risk in terms of accidents and the potential for subsequent litigation. Any, or all of these risks are integrated with a firm's financial resources, either directly or indirectly. Thus, the accounting profession has a significant role to play in assisting firms to identify issues, eliminate concerns, and in attesting compliance in fact and spirit to the Modern Slavery legislation.

The Australian Federal Government Modern Slavery Act 2018 (Cth)<sup>1</sup> requires firms with over \$100 million revenue to publish annual statements: outlining their actions to address the risk of modern slavery occurring within their organisation. This Australian Government requirement is consistent with the (2011) United Nations formally endorsed Guiding Principles on Business and Human Rights (UN Guiding Principles) which require firms to respond to human rights impacts that are 'directly linked to their products, operations or services' (p.7). This Act also applies to not-for-profit organisations. Firms outside the revenue limit requirements are encouraged prepare a voluntary statement.

A supply chain is a network of suppliers in a horizontal management structure. The use of technology across the supply chain can highlight the firm's (and its suppliers) purchase and handling activities and reduce the cost of resources both financial and human. Supply chain technology provides the multinational (and suppliers) with short term opportunities for 'just-in-time' management; reduction in the asset 'inventory' and its associated management and handling costs. Business activities drive all resources. Unsound management of resources (including human resources) within the supply chain may adversely impact on the organisation's public image.

For a multi-national corporation, its branding considerations, and the associated quality control and customer pricing decisions, encourage financial investment. The investor is interested in the reports that identify the policies, procedures and outcomes reflecting the governance and stewardship of human resources under its control.

The ultimate accountability and responsibility for management and reporting human slavery resides with the governing body – normally the Board of Directors. The reporting requirements from Section 16 of the Act are outlined below.

1. Identify the reporting entity.
2. Provide details of the entity's structure, operations and supply chain.
3. Identify current and potential risks of modern slavery practices in the entity' operations and supply chain, plus any risks in any entities owned or controlled by the reporting entity.
4. Provide information on the actions taken to assess and address modern slavery risks, including the processes for due diligence and remediation.
5. How the entity assesses if the actions taken above, are effective.
6. The consultation process with any entity that the reporting entity owns, or controls.
7. Any other information that may be relevant to assist in the accumulation and

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<sup>1</sup> <https://www.legislation.gov.au/Details/C2018A00153>

preparation of this information.

The relationship between human trafficking and rights has drawn the attention of researchers, for example Martin et al., (2017, p. 31) suggested (a) social audits, with both internal and external auditors, and (b) management accountants, play a significant role in supply chain governance. Martin et al., (2017) also provide practical insights into the use of social audits to detect and eliminate human trafficking within supply chains. Boyle et al., (2012) also discussed an expanding role for the internal audit function, providing a series of practical steps to assist management in their Social Interaction Skills, and their strategic planning and risk management. McPhail and Ferguson (2016) draw our attention of human rights in relation to international accounting standards, while (McPhail et al. 2016) highlighted human rights as a main topic of discussion in the academic literature. Siddiqui and Uddin (2016) discussed human rights disasters and corporate accountability.

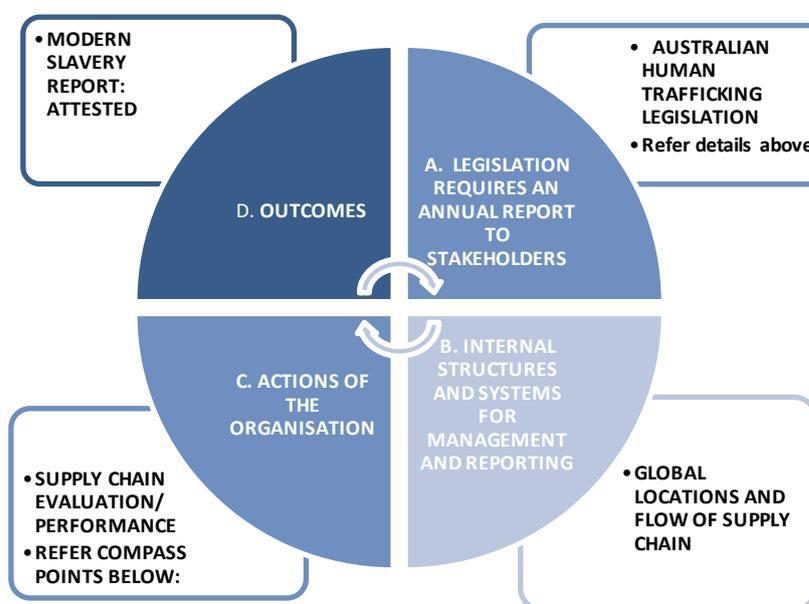
To assist and also provide practical insights on the issue, the CPA Centre of Excellence for Social, Environmental and Governance requested Dr Katherine Christ and Professor Roger Burritt of the University of South Australia, and the Australian National University respectively, to undertake research into Modern Slavery and its reporting.

Their findings suggest a Compass approach as a tool for management in the process of assessing, monitoring, and reporting Modern Slavery. Drawing very heavily on this research, the CPA suggests a practical approach to management, reporting and disclosure of anti-trafficking activities.

In Diagram 1 we provide a diagrammatical overview of the relationship between Human Slavery Legislation and the organizational reporting requirements.

This is then followed by Diagram 2, with more details of the Compass as a tool to assist in molding directors' and management information systems.

**Figure 1. LINKING EXTERNAL REPORTING REQUIREMENTS TO THE ORGANISATION.**



Adapted from Raar et al., 2020.

Firms required to prepare a report, for Board approval will need to:

- a. Review their existing policies and systems to ensure modern slavery risks and mitigation measures are firmly included in the supply chain management system.
- b. Appoint staff to be accountable and responsible for modern slavery, including who will be responsible for preparing the report.
- c. Train staff.
- d. Undertake an internal audit and due diligence on the entire global supply chain.
  - i) Ascertain if the firm has current victims.
  - ii) Identify partners or suppliers to assist in review and certifications, if required.
- e. Map the geographical locations of supply chain (reference below)<sup>2</sup>
  - i) Determine Country and Industry Risk.
- f. Identify and address specific current and potential risks.
  - i) Consider international experiences and case studies to identify local and international risks. Different countries may apply differing human trafficking legislation.
  - ii) Determine financial impacts from crystallized risks, such as supplier changes, litigation, loss of reputation/business and remediation. These would exclude planning and management costs, such as training and systems.
- g. Include the ability for parties to report suspicions of human slavery events or conditions which give rise to the possible risk.
  - i) Revise the whistleblowing arrangements, including accessibility to possible victims, and ensure protection of the data and removal of obstacles to reporting.
  - ii) Consider other legislative requirements for reporting, such as money laundering and terrorist financing, border controls, sanctions breaches, and criminal breaches, that may be linked to human trafficking.
- h. Monitor and measure effectiveness using performance measurement.
  - i) Establish quantitative and qualitative measures, including medium and long-term lag indicators.
  - ii) Link contractual obligations to satisfaction of due diligence reviews.
  - iii) Link and manage strategic and tactical goal congruence to reduce any conflicts between management performance and remuneration, e.g reduced wage costs to, or by subcontractors and their monetary returns.
- i. It is suggested that Australian firms flow chart their supply chains, including global subcontractors. A Flow chart diagram can assist in ascertaining risk associated with specific regions, and industry related risk. Suppliers can be mapped and geographical areas of risk highlighted. Where feasible this can be compared to diagrams such as that of Smith LM 'Major flows of human trafficking worldwide' (2016) <https://goo.gl/otlj8m>.

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<sup>2</sup> January 2018. China and the US Natural Resources Defence Council (NRDC) and the Institute of Public and Environmental Affairs (IPE) in China map linking multinational corporations to Chinese suppliers.

## Supply Chain Performance and Evaluation

The required operating information can be linked to the legislative requirements by the use of the compass tool provided below.

**Figure 2. MODERN SLAVERY COMPASS TOOL**



Figure 2. Five Key Elements of Modern Slavery Continuous Improvement Management System. (From: Christ And Burritt 2019)<sup>3</sup>

### ELEMENT 1. PRECONDITIONS

1. Establish country risk and/or industry risk associated with the any type of human slavery, identified in the legislation and by the UN Guiding Principles on Business and Human Rights;
2. Determine any past instances of modern slavery and the associated global/industry aspect.
3. Was human slavery included in any past ESG audits, and if so what happened as a result?
4. Detect any of any these past instances that are relevant to supplier contractors, codes and policies.
5. Ascertain what happened to the employees/victims (if any) of past issues.
6. Determine the financial relationships to past management and any key financial aspects arising out of past issues. For example, has the prior budget contained cost reductions and moved cheaper labour, vis a vis remediation and/or subsequent regulatory impositions. This information can be valuable input to integrate Modern Slavery management with financial reporting.

<sup>3</sup> The Elements and points outlined have been heavily drawn from Christ and Burritt (2019)

## ELEMENT 2. CURRENT POSITION

1. Is there any country and/or industry risk applicable in this reporting period?
2. Check that policies, procedures are currently in place to assist in the management and reporting of human slavery in the supply chain. If not, these would need to be established (refer Element 3 below. Responsibility for establishing, and monitoring the effectiveness of a system also needs to be firmly established.
3. Conduct a review in terms of stakeholder engagement, performance outcomes and determine any remediation action already taken, or to be taken.
4. Revisit the current system to determine where there may be gaps.

## ELEMENT 3. WHAT DO WE DO NOW?

1. Firmly establish a business plan that incorporates a modern slavery policy and system.
  - a. identify key geographical intervals in the global supply chain map, from where the policy/system can be monitored and audited.
2. Determine application of the Australian regulation to these centres.
  - a. Ascertain and list the key partner i.e. regulators, key suppliers/subcontractors necessary, support groups for victims.
3. Establish or revise existing human rights policies and/or due diligence plans.
4. Conduct education, training and engaging with workers, NGOs and suppliers;
  - a. developing remediation plans, including a grievance mechanism to handle complaints; and
  - b. deciding how, and by whom, within these sectors the information for company's modern slavery statement will be prepared;<sup>4</sup>
  - c. ascertain the location and relevant pay structure for the area and geographical location their activity within the supply chain;
    - use these to benchmark against the budgeted performance at the end of a period;
  - d. assess the procurement of products used in the supply chain and any implications for modern slavery.

## ELEMENT 4: WHAT ACTIONS HAVE BEEN TAKEN?

1. Establish and implement policies and channels for grievance for victims of modern slavery and whistle-blowers;
2. Establish the internal stakeholders responsible for training and compliance with modern slavery for e.g. supply chain procurements, human resources procurement, training and wage allotments;

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<sup>4</sup> China and the U. S. Natural Resources Defence Council (NRDC) and the Institute of Public & Environmental Affairs (IPE).

3. Classify suppliers by country and industry risk, introduce rules for management an exit of suppliers, if necessary;
4. Implement performance and measurement requirements, education policies, human resource training and other chosen processes.

## ELEMENT 5: PLAN AND ASSESS ONGOING EFFECTIVENESS OF ACTIONS IN THE FUTURE

1. In the ongoing continuous improvement of effective modern slavery management, the
  - a. *actual* indicators of performance, in terms of inputs e.g. number of victims, identified, number of suppliers audited, no of personnel trained, amount of money spent on modern slavery management;
  - b. *processes* e.g. implementation of a management standard;
  - c. *outputs* e.g. number of instances of modern slavery and their outcomes, results of audit in the supply chain.

During the formation of continuous improvement of strategic plans and goals, and their congruent shorter-term objectives, if organisations can establish the specific human resources (qualitative and quantitative) required to achieve these goals, it may well reduce the risk of human trafficking in the longer term. Linking these goals with key performance indicators that meet governance and human trafficking requirements, may also assist in reducing any internal disharmony, while adding value to public image outcomes.

### Summary

The CPA Australia has provided this information to assist firms in complying with the modern slavery legislation. It is provided as a general overview to draw attention to areas of concern only and is not intended to be an exhaustive set of processes for each and every firm to comply. We trust due diligence is enhanced as a result of this paper.

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