

UK Modern Slavery Update

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Introduction

A recent report urges boardrooms to do more to eradicate modern slavery and, although there are some positive findings, the report is quite critical of business' compliance in this area. This article looks briefly at the report's highlights.

Background

Under the UK Modern Slavery Act 2015 (the 2015 Act), compliance disclosure and transparency requirements mean that an organization with an annual turnover of £36 million (approximately USD \$44 million and €42 million at today's rate) or more that sells goods or services in the UK is required to annually publish a slavery statement demonstrating what they are doing to ensure that there is no slavery or human trafficking in the business or the supply chain. This also applies to organizations based outside the UK selling goods or services into the UK.

As the UK's official accompanying guidance on the disclosure/transparency requirements states, organisations must "paint a detailed picture" of all the steps that they have taken. This compliance obligation has now been in force since 29 October 2015 and many organizations who fall under it have already previously published their statements in the last few years.

There are also plans to overhaul the UK modern slavery compliance regime (see here <https://www.corderycompliance.com/uk-modern-slavery-compliance-rules-draft-amends/>).

What's this all about?

The Financial Reporting Council (FRC), the UK Anti-Slavery Commissioner, and Lancaster University (Management School) recently published a report, having done research on a sample of a hundred major companies' modern slavery statements and their strategic and governance reports.

Criticism about the slavery statements from the report include the following:

- "Overall, the research found reporting on modern slavery in both modern slavery statements and annual reports to be lacking the information needed for shareholders and wider stakeholders to make informed decisions";
- "It was found that around one in ten companies did not provide a modern slavery statement at all, and therefore failed to comply with the [...] reporting requirement. Where companies did comply, only one third of modern slavery statements were considered clear and easy to read. The majority of statements were fragmented, lacking a clear focus and narrative, or were unduly complicated. For example, longer disclosures did not necessarily mean more informative disclosures; excessively long disclosures often contained boilerplate reporting or were a sign of a poorly structured statement. Key performance indicators (KPIs) to measure the effectiveness of the steps taken to minimise modern slavery risks is an area where disclosure was particularly poor. Only a quarter of companies disclosed results against their KPIs and just 12% confirmed they have made informed decisions based on those KPIs";
- "Within modern slavery statements, less than half of companies provided a clear and comprehensive discussion of modern slavery concerns in the context of their organisational structure, operating and supply chains. A similar proportion of companies (46%) described their policies on slavery and human trafficking in

an informative manner. Disclosure therefore often lacked detail, often failing to provide information on how policies operated in practice, or how their effectiveness was measured”; and,

- “Perhaps more importantly, the vast majority of modern slavery statements were wholly backward-looking, with only a minority clearly identifying emerging issues or a long-term strategy. This finding is consistent with companies opting for a reactive, rather than proactive, approach to addressing modern slavery risks. A related finding is that, although the majority of companies report that they assess modern slavery risk in their own business and supply chain, less than a third of them (28%) disclosed an action plan based on the risks identified”.

Criticism about reporting on modern slavery in annual reports includes the following:

- “Our assessment of annual reports suggests that many companies appear not to view human rights issues in their workforce and supply chain as a principal source of risk for their business. For some companies, this lack of concern may reflect strong and positive relationships with trusted suppliers coupled with relatively short supply chains that are easy to manage. For many others, however, the lack of disclosure might raise questions over whether sufficient attention is being paid to such issues”.

Criticism about overall reporting behaviour about modern slavery include the following:

- “[...] modern slavery statements remain largely descriptive and superficial, with little attempt to critique performance and highlight areas of concern. Many companies opted for broad-brush statements rather than precise descriptions on issues such as their policy on withholding wages or imposing recruitment fees. The lack of detail and critical assessment of performance is particularly evident for reporting on training, due diligence processes, risk assessment, and policy effectiveness [...]”;
- “In addition to assessment of past performance, forward-looking discussion of evolving issues and the company’s strategy for dealing with them is critical information for shareholders to assess the company’s approach to addressing modern slavery risk. The research found, however, only a third of statements (37%) clearly identifying emerging issues and only 12% of companies providing a long-term plan. As such, the vast majority of modern slavery statements were wholly backward-looking”; and,
- “Only one third of reports (36%) were judged by our team of analysts as being clear and easy to read. The remainder were classified as being fragmented, disjointed, or lacking a clear focus and narrative. In particular, we found that longer disclosures did not necessarily mean more informative disclosures. Indeed, in some cases, excessively long disclosures often consisted of extensive boilerplate reporting or were a sign of a poorly structured statement”.

Criticism about the reporting categories about modern slavery include the following:

- Due diligence – “Half the companies in our sample (54%) reported that they assess forced labour or modern slavery risks before signing contracts, and 61% reported having modern slavery provisions in their supply chain contracts. While the majority of companies appear sensitive to slavery and human trafficking risk in their business operations, it is a serious concern that between a third and a half of the modern slavery statements provided insufficient detail on assessment practices for contract approvals generally, and supply chain contracts in particular [...]”;

- Risk assessment – “Less than half our sample (40%) provided sufficient disclosure on slavery risks in their supply chain and only 29% provided clear disclosure on slavery risks in their own business. Less than a third of companies (28%) disclosed an action plan based on the identified risks. Reporting on modern slavery risk assessments was therefore undermined by a lack of strategic response by companies and a focus on procedure rather than outcomes;”
- Key Performance Indicators – “[...] reporting on key performance indicators (KPIs) to measure the effectiveness of the steps taken to minimise modern slavery risks is an area where disclosure is particularly poor. [...] Only 3% of companies disclosed that they have reviewed existing KPIs to determine whether they make their business and supply chain vulnerable to modern slavery;” and,
- Policy Effectiveness – “Policy effectiveness is an area where reporting practice is especially opaque. The absence of regular reviews and KPI revisions suggests that companies are taking limited practical actions to address modern slavery concerns”.

What are the takeaways?

The report interestingly comments that “companies do not sufficiently appreciate the risk of modern slavery to their business, and rather understand modern slavery engagement and disclosure as a compliance exercise” and “[...] many companies are still providing limited and often superficial commentary on this key business risk.” This is something that business’ should therefore seriously consider.

This report is the latest in a line of several reports over the years that have highlighted weak compliance with the 2015 Act compliance disclosure and transparency requirements. This type of criticism has been a push behind reform plans at the UK political level and although it is slow in coming it is probably only a matter of time before modern slavery compliance gets real enforcement teeth.

It should also be borne in mind that investor demand for transparency in this area is also going to act as a compliance driver.

It is incumbent on businesses to have a clear compliance plan to ensure that no forms of modern slavery are taking place in the business or its supply chains. Compliance teams also need to be on the lookout for and train staff to recognise the signs of forced labour or modern slavery, including:

- The vulnerability of some workers;
- Threats, coercion, deception and physical punishment carried out against workers;
- Working and living conditions;
- High recruitment fees;
- Withholding of wages;
- Salary deductions;
- Confiscation of documents;
- Absence of work permits;
- Absence of regular employment contracts; and,
- Limitations to freedom of movement.

See our film about spotting the signs of modern slavery here <https://www.corderycompliance.com/spotting-the-signs-of-modern-slavery/>.

Cordery’s Modern Slavery Action helps organizations meet their modern slavery reporting requirements for a fixed fee. There are more details here <https://www.corderycompliance.com/solutions/modern-slavery-action/>.

Resources

We write about modern slavery/ESG/supply chain due diligence and compliance issues here <https://www.corderycompliance.com/category/modern-slavery-supply-chain-management/>.

Recent articles that we have written include the topics of proposed EU rules about Human Rights & Environmental Adverse Impacts Supply-Chain Due Diligence here <https://www.corderycompliance.com/eu-hr-eai-and-supply-chain-dd/>, and Greenwashing here <https://www.corderycompliance.com/greenwashing-power-modernslavery-esg/>, and the EU initiative to Ban Forced Labour Imports here <https://www.corderycompliance.com/eu-proposed-ban-forced-labour-products/>, and about the EU's Forced Labour Guidance here <https://www.corderycompliance.com/eu-modern-slavery-guidance/>.

The FRC report can be found here <https://www.frc.org.uk/getattachment/77c053d9-fe30-42c6-8236-d9821c8a1e2b/FRC-Modern-Slavery-Reporting-Practices-in-the-UK-2022.pdf>.

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