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Integrity Due Diligence

Managing integrity and corruption risk

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Integrity and corruption risks can be high when dealing with certain third parties (suppliers, agents, distributors, etc.). Especially those operating in high risk jurisdictions.

Whilst reliance on third parties is necessary, it is important that companies better understand the operating methods of third parties, so they can mitigate the risk of having to defend themselves against compliance or regulatory action, or head off potential reputational damage.



Numerous potential issues of concern

There are many potential issues which businesses need to understand and monitor in relation to their third party relationships. These include:

- **Business integrity and corruption issues**

Operating in emerging and other high risk markets may lead to an increased exposure to legal, ethical and reputational risks (relating to a third party or its principals). This is of increased concern in a large number of industries due to factors such as the level of interaction by some third parties with local and national government officials. Legislation, such as the UK Bribery Act and the US Foreign Corrupt Practices Act, makes it vital that companies put procedures in place to prevent corruption.

- **Alleged human rights violations**

Such violations – including the alleged use of forced labour by third parties – all too frequently see established and otherwise reputable brands brought into the headlines for the wrong reasons. Several high-profile scandals continue to highlight the importance of getting this right.

- **Product safety and security**

The question of product safety, and the traceability of product components through the supply chain, is one which continues to be of key importance in a number of sectors (such as pharmaceutical, textile, cosmetics, retail, food and luxury items) with – for example – even legitimate channels of distribution of different types of goods in developed nations being increasingly infiltrated by counterfeits.

There are many potential issues which companies need to understand and monitor in relation to their third-party relationships.

- **Licensing and permit irregularities**

The holding of the correct licences and permits by third parties for the services to be performed should be an essential prerequisite to entering into a business relationship for the provision of those services. Whether that is – for instance – for the performance of clinical trials in the pharmaceutical sector, consumer and food sector permits, the provision of educational services or the disposal of waste.



Mitigating the risk

Although reliance on third parties exposes businesses to a variety of risks, it is possible to mitigate these risks. Performing an appropriate level of integrity due diligence (IDD) on the third parties involved – particularly those operating in high risk jurisdictions – can help to build up a detailed understanding.

This IDD should be conducted on a risk-based basis, with the level of research conducted being proportionate to the risk presented by the relationship. Frequently, a three-tiered approach is used, with these tiers designed to suit the lowest to highest third-party risk profile.

Level 1: Lower risk third parties

For third parties providing low risk services in jurisdictions with a low risk of corruption, companies typically seek to conduct targeted searches of registration records, specialist media databases, internet resources and PEP/sanctions lists in English and the main business language of the relevant jurisdiction to verify a third party's registration status and to identify reports of their involvement in specific "red flag" issues (including, for

example, bribery and corruption, human rights abuses and licensing issues).

Level 2: Medium/high risk third parties

A Level 2 search – which is conducted through in-depth public record research in both English and the relevant business language of the jurisdiction – typically seeks to identify information on: the identity of the company; its business background, activities, track record and reputation; its ownership (including indications of state ownership); political or official connections held by the subject or its shareholders and key managers; and their involvement in specific “red flag” issues.

Level 3: High risk third parties

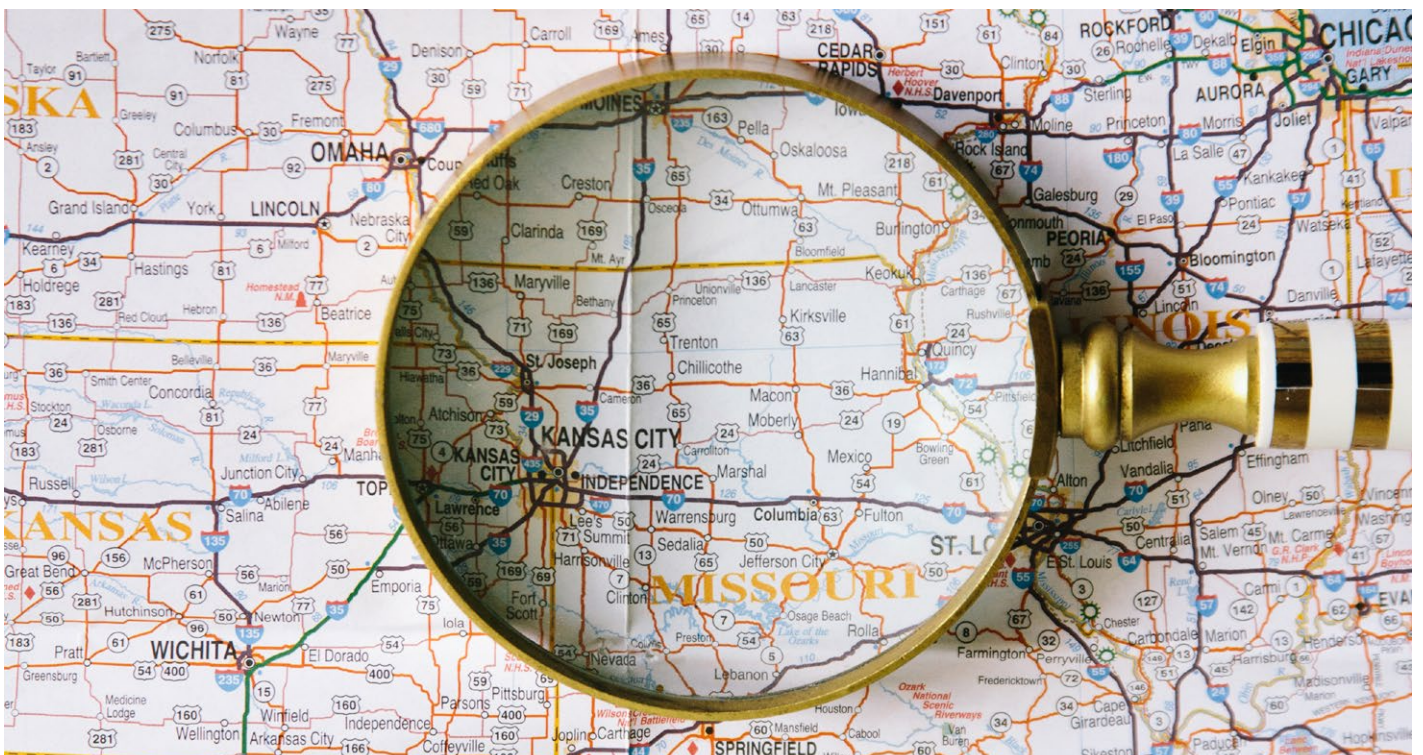
A Level 3 search is most typically used in situations where companies require a deeper insight into a third party (such as a Joint Venture partner and prior to M&A transactions) than can be provided by public record information alone, with such research therefore also including seeking to gather information through human sources in the relevant jurisdiction and sector. This approach typically gains more in-depth information on issues such as the subject’s reputation track record and modus operandi, political links, and “red flag” issues.



Challenges faced when conducting IDD

In our experience, the challenges typically faced by companies when confronted with conducting IDD on their third parties include:

- *Customising the IDD process*: constructing an effective scope and methodology so that critical information can be identified in a cost and time-efficient manner.
- *Consistency*: ensuring that work conducted by decentralised business units is of a consistent standard, meeting the expectations of the central compliance team.
- *Jurisdictional knowledge*: each jurisdiction varies in terms of what information is available, and the weight to be given to specific sources of information.
- *Experience-driven judgement*: being able to assess findings and flex the approach on a particular third party to seek to ensure that relevant information is identified and reported.
- *Language capabilities*: in order to gain an understanding of a third party, it is necessary to conduct searches in the relevant business language of the jurisdiction.



An IDD should be conducted on a risk-based basis, with the level of research conducted being proportionate to the risk presented by the relationship.

How can we help?

We are a part of a global Centre of Excellence and have assisted clients across all sectors. We have conducted thousands of IDD research assignments and work across more than 100 jurisdictions each year making us the market leader in the delivery of such services.

Languages and global coverage

Our team comprises over 250 specialist IDD practitioners from Deloitte Touche Tohmatsu Limited (DTTL) member firms worldwide, speaking at least 85 languages. We do not use online translation tools to perform our research. We cover virtually all countries around the globe and provide seamless and high-quality service globally.

Deep public record knowledge

In addition to investment in in-house language skills, we have made significant investments in online databases. Our tools are constantly updated and our team have specialist knowledge of the databases and internet search engines we use.

All of our team members have specialist backgrounds and include sector-specific experts, political risk analysts, intelligence analysts and background investigation specialists. They have extensive knowledge of the regions in which they conduct their work and of

the specific information gathering tools available in these regions, including a strong understanding of the specific complexities and limitations of public record information in each jurisdiction.

Our reports not only describe the nature of the source(s) of each piece of information gathered during our work, but also give any relevant context where required. Our team is able to conduct work in relation to the region in which they specialise, whether or not DTTL has a physical presence there.

Our expert human sources

Our network of expert human sources comprises trusted individuals globally with whom we have been working closely for a number of years. Each outside source is managed by the project manager working on the case.

Quality, risk and confidentiality

All of our work is conducted to a proven methodology – under the strictest confidentiality and within the laws of the countries in which we conduct our work – and our work is also subject to strict quality control procedures that help us to ensure that our work product is consistently of the highest quality.

When establishing Joint Ventures or as part of M&A transactions, the integrity and corruption risks can be significant.

Recent examples of our work

Level 1 and 2

IDD on upstream and downstream third parties in the supply chain of a consumer healthcare and pharmaceuticals company operating in numerous jurisdictions across the world.

Level 2

IDD on the proposed FSU and South Asia-based collaborative centres of an educational provider.

Level 2 and 3

IDD on several companies in the Middle East, Africa and Russia with which a European energy company was considering forming joint ventures.

Level 3

IDD on the third party suppliers and distributions of a European natural resources company with assets in the FSU, South America and Africa.

Who can you contact?



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