



Integrity due diligence

Managing third party integrity & corruption risk

As businesses grow, they find themselves increasingly dependent on third party relationships within different markets, both in terms of market entry, and the operation and management of their local activities.

Whilst reliance on third parties is necessary, it is important that companies better understand the operating methods of the 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 higher 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 or luxury items) with – for example – even legitimate channels of distribution of different types of goods in developed nations being increasingly infiltrated by counterfeits.

- **Licensing and permit irregularities**

The holding of the correct licences and permits by third parties for the services to be performed (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) should be an essential pre-requisite to entering into a business relationship for the provision of those services.

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



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 higher 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:

Tier 1: Lower risk third parties

For third parties providing lower risk services in jurisdictions with a lower 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 in order 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, licensing issues etc).

Tier 2: Medium/high risk third parties

A Tier 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.

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

Tier 3: High risk third parties

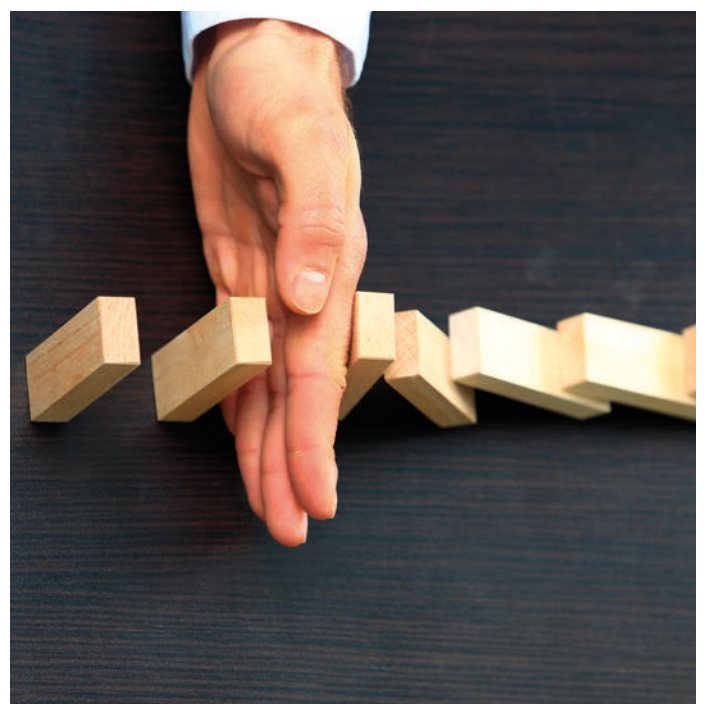
A Tier 3 search is most typically used in situations where companies require a deeper insight into a third party (such as a JV partner) than can be provided by public record information alone, with such research therefore also including seeking to gather information through human sources in the relevant 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:

- Tailoring 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 judgment: 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.





How can we help?

Our Centre of Excellence in the UK – which specialises in public record research and other information gathering – has assisted many of our clients in understanding their third parties. Since the team's formation in 1997 we have assisted clients across all sectors and conducted thousands of IDD research assignments (across more than 100 jurisdictions each year).

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 on-line translation tools to perform our research. We cover virtually all countries around the globe. All work for clients in the EMEA region is led from the UK, drawing upon both its own resources and from other IDD practices (including in New York, Hong Kong, the UAE, South Africa, India and Russia). We provide a seamless and high quality service on a global basis..

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 and the prevailing culture therein.

Our reports not only provide a description of the nature of the source(s) of each piece of information gathered during our work, they also give any relevant context where required, (for example overt political bias of a publication). 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 (some for more than a decade). Each outside source is managed by the project manager working on the case using an iterative process in which our findings are followed up as required.

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. We have earned ourselves a reputation as a market leader in the delivery of such services, providing clients with in-depth reports of the highest quality, tailored to address the key issues of significance to them. Deloitte takes client confidentiality extremely seriously and we therefore have in place very strict ethical walls to ensure that the highest level of confidentiality is preserved. Our ethical walls apply to the entire lifecycle of a project, from our take-on process up to and including billing.

Ease of use: The Deloitte Integrity Diligence Portal

As a standard part of our work on large volumes of third parties we offer a secure online portal which serves as both a communication and a project management tool. This portal provides easy-to-use access to, and tracking of, a breadth of screening procedures to provide key information on third parties, as well as a means for the client of obtaining management information (for example, in order to analyse requests, view outstanding requests and keep track of costs).

An important element of this is to conduct work to understand the companies; that is, to perform an appropriate level of integrity due diligence (IDD) on the third parties involved – particularly those operating in higher risk jurisdictions.



Recent examples of our work

Tier 1 and 2 IDD on upstream and downstream third parties in the supply chain of a UK-based consumer healthcare and pharmaceuticals company operating in numerous jurisdictions across the world.

Tier 2 and 3 IDD on several companies in the Middle East, Africa and Russia with which our client, a European energy company, was considering forming joint ventures.

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Tier 3 IDD on the third party suppliers and distributors of a European natural resources company with assets in the FSU, South America and Africa.

Tier 2 IDD on the proposed FSU and South Asia-based collaborative centres of a UK educational provider.

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