A challenging landscape

Understanding who you conduct business with has become more than just good business practice; it is increasingly smart compliance. Multinational organizations are rapidly adjusting to enforcement standards that hold companies responsible for the actions of their business partners and vendors, and require effective third-party due diligence. Whether it be the Foreign Corrupt Practices Act (FCPA) in the United States, the UK Bribery Act, or recently enacted anti-corruption regulations in Brazil, Russia, China and Mexico, governments are taking clear steps against the practice of making improper payments through third parties.

The Criminal Division of the United States Department of Justice (DOJ) and the Enforcement Division of the United States Securities and Exchange Commission (SEC) recently provided guidance on compliance with the FCPA.

Some key points regarding third parties include:

- Understand the qualifications and associations of the third-party partner, including its business reputation and its relationship, if any, with government officials. The degree of scrutiny should be risk-based, increasing scrutiny if and when red flags surface.
- Understand the business rationale for including a third party in a transaction. The company should understand the role and need for the third party and ensure that contract terms specifically describe the services to be performed and the potential risks involved with those services.
- Monitor your third-party relationships once they begin. Where appropriate, this may include requiring and exercising audit rights, updating existing due diligence, providing regular training and requesting annual compliance certifications by the third party.

Proper diligence and monitoring not only help reduce the risk of corruption but also can cut down on fraudulent transactions, embezzlement, conflicts of interest, related-party transactions and money laundering. They help safeguard company assets and reputation.

Responding to these emerging standards in a standardized and efficient way presents a large operational challenge. Management is often challenged by widely varying information availability across markets, and fragmentation of their own internal systems. The question becomes: how do you create one consistent, practical diligence process for third parties in New York, Ningbo and Nairobi to mitigate third-party risk? While the guidance is in the context of anti-corruption controls, these principles are helpful in dealing with risk among third parties generally.

“The DOJ’s and SEC’s FCPA enforcement actions demonstrate that third parties, including agents, consultants, and distributors, are commonly used to conceal the payment of bribes to foreign officials in international business transactions.”

Meeting the challenge

The EY Integrity Diligence teams understand this problem. We help clients design, implement and maintain effective third-party diligence systems on a global scale. Our offering builds upon years of conducting complex international fraud and corruption investigations, as well as fraud and corruption risk consulting projects, in every major market worldwide.

EY's Integrity Diligence offering is designed to respond to the following client needs:

1. **Consistency.** Standardized risk-based procedures for diligence that can be practically implemented wherever our clients do business worldwide.

2. **Accessibility.** The ability to continuously update and monitor the diligence program from local market to headquarters, as well as a broad global network of forensic professionals who sit where our clients and their third parties sit.

3. **Integrity.** A careful approach towards applicable laws for data privacy and collection in relevant jurisdictions.

The global, multidisciplinary EY teams incorporate in-depth research and analysis to support better-informed decisions when evaluating third parties. Our research can include:

- Comprehensive reviews of available sanction, embargo and watch lists and other compliance databases to identify parties suspected of wrongdoing, politically exposed persons (PEPs) and state-owned entities (SOEs).
- Public domain searches and adverse media inquiries.
- Review of public records databases, such as criminal and civil litigation, liens, bankruptcies and regulatory infractions.
- Local language research utilizing jurisdiction specific resources.
- Analysis of ownership structure to uncover beneficial owners and identify potential conflicts of interest.
- Real asset searches.
- Identification of links to government, including contracts awarded, and potentially vulnerable relationships with other entities.
- Interviews with subject entity personnel or other individuals pertinent to the investigation.
- Site visits to the subject entity’s headquarters or other operations.

Using open source information from...

Using open source information fromcompliance databases, corporate data repositories, country-specific databases, news and media, social media, and global market reporting, we develop reports that address the following:

- Background, reputation and ethical track record
- Market reputation and credentials
- Regulatory and litigation history
- Business history, activities and operations
- Associations or relationships of potential concern
- Allegations of illegal or unethical business practices
- Suspected involvement in bribery or corruption
The Integrity Diligence Approach

The EY Integrity Diligence practices offer a tiered strategy for background diligence:

**Quick Scan:** Online watchlist and adverse media check.

**Level I:** Quick Scan + more detailed online company and executive background research. Performed both from global diligence talent hubs as well as local jurisdictions.

**Level II:** Level I + localized public records archive search (such as local court filings).

**Level III:** Level II + field research such as site visits and interviews.

Our web-based EY_ID technology platform is a globally accessible program management tool that helps executives centrally coordinate this complex diligence process. EY_ID helps to manage third party applications, background diligence results, risk ratings, approvals, compliance confirmations and contracts in a single repository. It also can be customized to guide users through a standard decision tree when evaluating risk factors in diligence. The result is an interactive decision management tool which also serves as a searchable archive of your diligence activity.
EY Integrity Diligence services are delivered by our member firm Fraud Investigation & Dispute Services (FIDS) teams. FIDS serves multinational companies on sensitive engagements and brings the international scale, local knowledge and experience necessary to effectively investigate third parties and document our findings in an actionable report.

Our global teams are coordinated so resources are available to respond to challenges efficiently in both English and local languages while understanding the intricacies of local public records databases and regulations. Our more than 2,500 EY FIDS professionals in member firms in 68 countries around the world are located virtually everywhere our clients do business, and have helped companies in all industries execute third-party due diligence requirements and build compliance programs to address corruption risk. We’re ready to help you make the right decisions.

- 68 Member Firm FIDS practices
- 143 partners
- 2,500 FIDS professionals
- 130 countries in which FIDS has performed investigations or compliance work

Countries with dedicated FIDS professionals
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About EY

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About EY’s Fraud Investigation & Dispute Services

Dealing with complex issues of fraud, regulatory compliance and business disputes can detract from efforts to succeed. Better management of fraud risk and compliance exposure is a critical business priority - no matter what the industry sector is. With our more than 2,500 fraud investigation and dispute professionals around the world, we assemble the right multidisciplinary and culturally aligned team to work with you and your legal advisors. We work to give you the benefit of our broad sector experience, our deep subject-matter knowledge and the latest insights from our work worldwide.

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