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Russia Fraud Forum

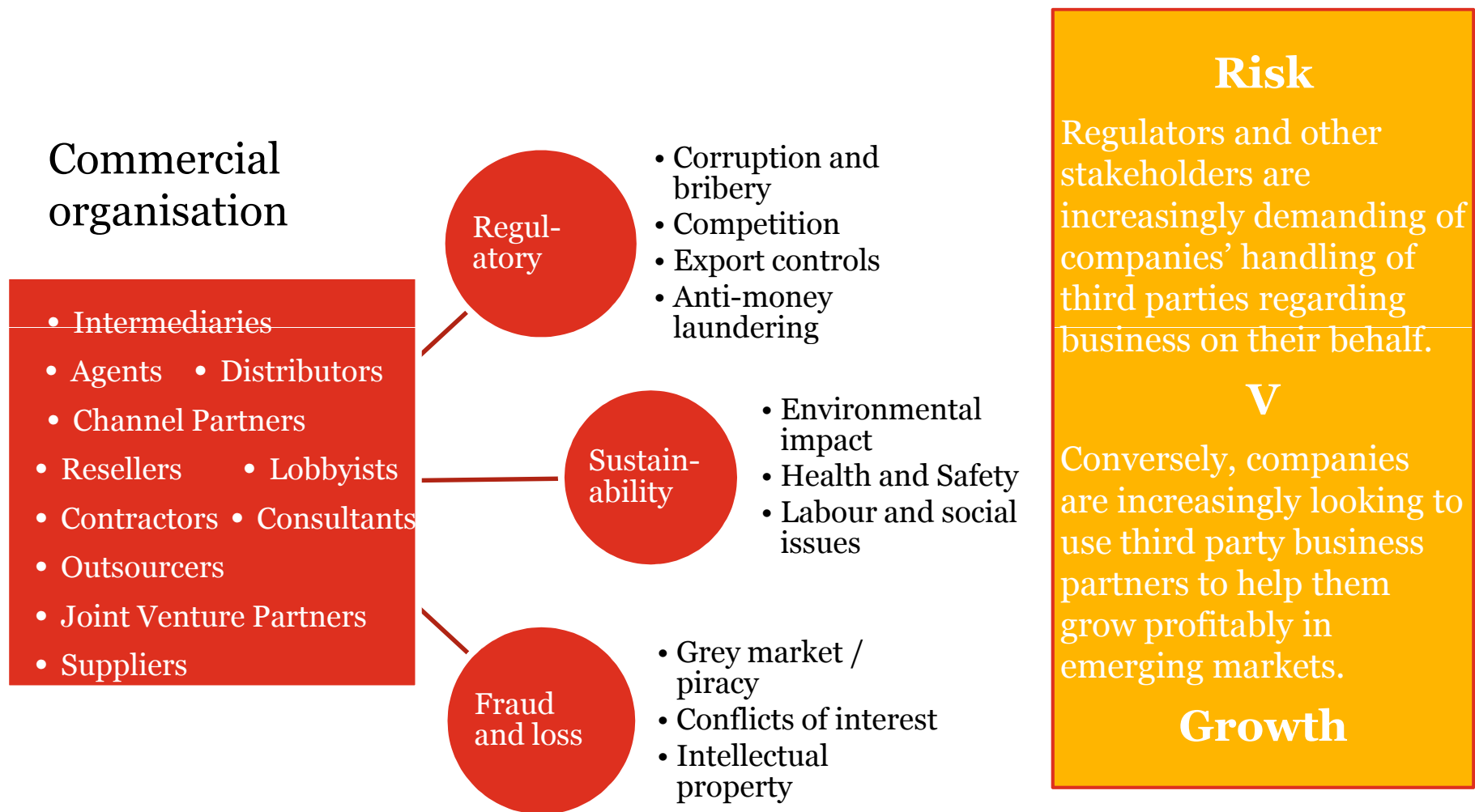
Third Party Due Diligence Programmes in Emerging Markets

Mark Anderson
Moscow, January 2012

Agenda

1. Crowd control: Managing multiple third party integrity risks
2. Recent international regulatory developments
3. Key components of a third party compliance and due diligence programme
4. Approaches to due diligence
5. Questions

1. Crowd control: managing multiple third party integrity risks



1. Common third party integrity risks in emerging markets

- Used as a conduit for payment of bribes to end customers
- Used as a conduit for payment of bribes to government officials (ownership, tax payments, license to operate, excise, export controls, planning)
- Opaque ownership structure conceals real beneficiaries
- Undisclosed political affiliations
- Diversion of funds to related parties (JVs)
- Linked to organised crime / protection
- Procurement fraud in supply chain
- Poor reputation in industry / business community

2. Recent regulatory developments

UK Bribery Act Section 8 Associated Persons “test” and MOJ Guidance

An Associated person...

- Person /organisation performing services on your behalf
- Liability will depend on all circumstances; degree of control important

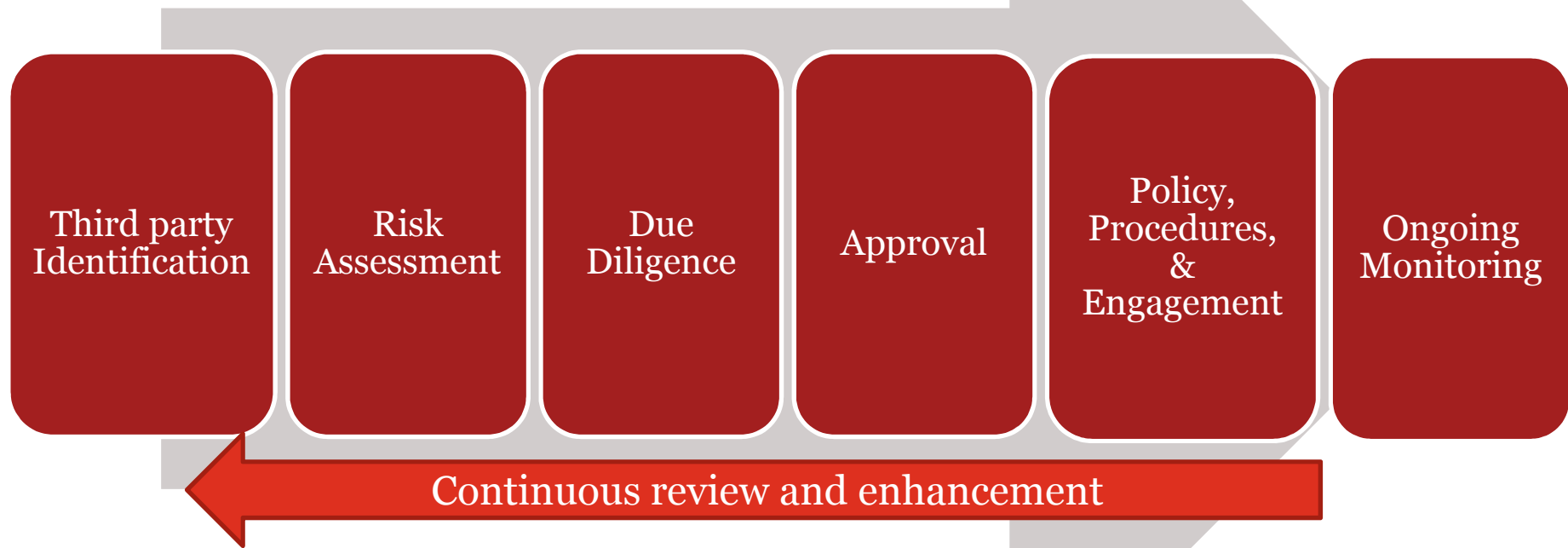
Due diligence procedures....

- May form part of wider programme and could involve a range of approaches
- Should be risk-based and proportionate
- Regularly monitored and reviewed

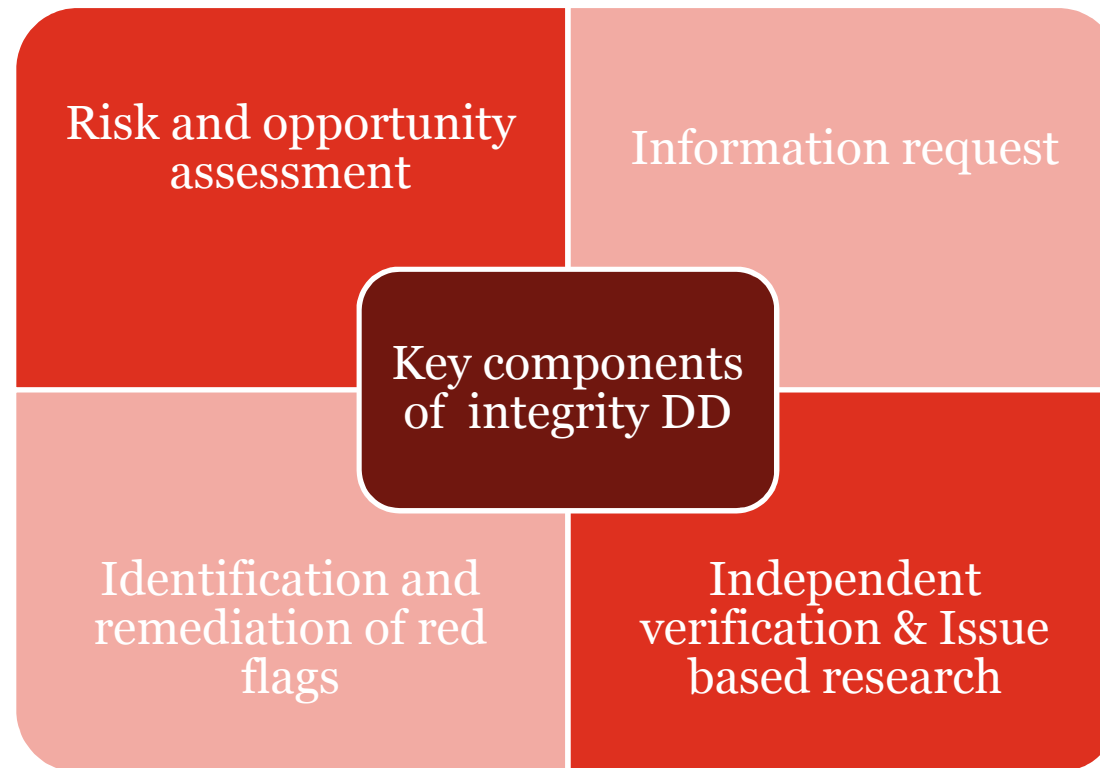
International regulator focus

- SFO - recent settlements against MWKellogg, Innospec
- DOJ/SEC - recent US cases of Panalpina, Bourke and Tecnip demonstrate particular focus on third parties and importance of undertaking adequate due diligence
- Greater BRIC enforcement also evident

3. Key components of a third party compliance and due diligence programme



4. Approaches to due diligence



4. Approaches to due diligence

	<u>Scope of activities</u>	<u>Key issues to address</u>
Low risk	<i>Initial risk data screening and basic information gathering</i>	<ul style="list-style-type: none"> • Accurate identification • PEP, sanctions, govt. links
Medium risk	<i>Risk-based questionnaires, detailed open source research to verify data provided and identify red flag issues</i>	<ul style="list-style-type: none"> • Ownership and director confirmations • Public profile and reputation • Qualifications and experience
Higher risk	<i>Referencing, local source enquiries and/or external background check, on site interview</i>	<ul style="list-style-type: none"> • Non public domain gaps or red flag review from above • Detailed histories and reputation of management or company • Allegations of criminal, unethical, litigious behaviour
Alert and audit rights	<i>Internal review of books and records, compliance interviews and certifications</i>	<ul style="list-style-type: none"> • Compliance programme and controls • Illicit payments



4. Approaches to due diligence



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Dashboard

PARTNER REGIONAL STATUS



PARTNER TYPES

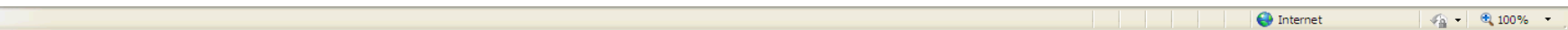
[TO DO LIST](#) [DUE DILIGENCE](#)



Legend

- Consultant
- Customer
- Business Process Outsourcing
- Research and Development
- Lobbyist
- Reseller
- Distributor
- Sales Agent
- Supplier
- System Integrator
- Joint Venture Partner
- Advertising/Public Relations
- Value Added Reseller
- Legal Services
- Customs Agent
- Logistics/Supply Chain agent
- Manufacturer

Version: SDC_06-21-2011_1100



4. Approaches to due diligence

The screenshot shows a web browser window titled "PwC Due Diligence Toolkit - Windows Internet Explorer provided by PricewaterhouseCoopers UK(rev38)". The address bar shows the URL: <http://10.74.156.232/DemoDueDiligence/Pages/Dashboard/RelationshipDashboard.aspx?id=17>. The browser's link bar contains several links: B2E Portal, IMI questionnaire, IMI toolkit, PwC Lehman Brothers Billing System DEV v6.7, and PwC Risk Assurance Global Showcase. The browser's address bar also shows a search engine (Google) and a search icon.

The main content area of the web application features the PwC logo on the left and the title "PwC Due Diligence Toolkit" on the right. Below the title, it indicates the user is logged in as "Sudheer Parwana". A navigation menu includes links for HOME, THIRD PARTY RELATIONSHIPS (which is the active page), REPORTING, HELP, and LOG OUT.

The main heading of the page is "Third Party Relationship Dashboard: Demo Third Party". Below this heading, there are several sections of activities, each with a status of "Not Started" and an "Edit" button:

- Stage 1 Activities**
 - Summary Information (Not Started) [Edit]
 - Business Case (Not Started) [Edit]
 - Denied Party Screening (Not Started) [Edit]
 - Risk Assessment (Not Started) [Edit]
- Director Sign-Off**
 - Stage 1 Sign-Off (Not Started)
- Post Sign Off Activities**
 - Third Party Questionnaire (Not Started)
 - Outside provider of due diligence (Not Started)
 - Public Records Search

The browser's status bar at the bottom shows "Done" and "Internet" with a 100% zoom level.

Good practice in third party compliance and due diligence programmes

- Connecting up different internal risk and relationship areas: procurement, operational risk, sales and business development, compliance, CSR, treasury
- Risk based, proportionate due diligence and approvals
- Use of a range of due diligence tools and approaches
- Modular system of linking different areas of third party risk and compliance (e.g. regulatory, sustainability, fraud and revenue loss)
- Technology tools for workflow, data management, monitoring
- Ongoing risk monitoring (certifications, training, compliance reviews, due diligence renewals)

Questions

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