Take a Test – If you need a third-party due diligence audit

A lot has changed in last few years in the way which large corporates as well as small companies are managing third-party due diligence process. Faced with complex, global supplier networks, it's more critical than ever for clients to have an effective strategy for evaluating and monitoring third-party risk. This test is designed for clients companies to understand if they have an enhanced due-diligence process to ensure clients have the insights needed to avoid financial and reputational harm due stemming from third-party relationships.

- **How do you currently read your third-party compliance concerns**?

Is there a vendor in your eco-system that you believe may not be adhering to the agreed processes, guidelines, standards, templates, checklists, etc.? The global nature of business today subjects enterprises to a growing number regulations—and a greater need to mitigate risk exposure through partners and third parties—regardless of where they are located—in order to comply with these high standards.

- **Do you do periodic due diligence on vendors? Do you have well-defined objectives?**

Client companies must actively monitor the third-party relationship to become aware of potential problems before they put client organizations at risk. All companies irrespective of the size of the deal, should have a well-defined due diligence process in place that needs to align with the strategic, financial, regulatory and reputational risks client organization may face. This is especially true for organizations doing business with third parties in countries that attract high levels of regulatory scrutiny.

- **Does your due-diligence process gather sufficient information on vendors?**

For a large vendor entity, client organizations need to collect basic information including:

• Incorporation documents
• Details on key shareholders and beneficiaries
• Group structure, board members
• Political connections

• Official references

For smaller vendor organizations, due diligence process should focus on gathering:

• Proof of identity
• Source of wealth and funds
• Potential political links

When was the last time you screened your Third Parties against Watchlists and PEPs?

Sourcing Auditors always advise its clients to subject third parties—both large vendors companies as well as small suppliers—to a watchlist screening process. By conducting watchlist and politically exposed persons (PEP) checks, client companies can quickly determine if the potential third-party relationship poses a significant risk. Names of companies, individuals, NGOs and, if applicable, assets such as vessels should be checked against:

• Global sanctions lists
• Law enforcement lists of known criminal entities
• Regulator-published lists of debarred or disqualified companies and individuals
• PEP lists to identify government or official connections

Have you performed a risk assessment on your third-party vendors?

Most important step in the due diligence process is to perform periodic risk assessment. Considerations should include but not be limited to:

• **Country of origin risks** such as those identified by Transparency International's Corruption Perceptions Index rating

• **Specific sector risks** like a high level of government involvement that might increase corruption risk in the defense industry or dependence on local agents that might increase bribery risk in the construction industry

• **Entity risks** such as use of intermediaries in transactions, joint-venture partners and exposure to money laundering

• **Essential internal factors** related to financial risk including deficiencies in employee training, skills and knowledge, a bonus culture that rewards excessive risk taking, lack of clear policies and procedures related to hospitality and promotional expenditure and political or charitable contributions.

How often do you validate the information submitted or obtained on your Third-party vendors?

Client due-diligence process should include verification of the supplied or obtained information. For low-risk third parties, this screening involves corroborating details against public records, a credit check, specialized databases like CIFAS and filed reports and accounts. High-risk third parties require an enhanced due-diligence process of the entity itself, as well as known associates, subsidiaries and other related entities. There are some specialized companies out there which supply such reports at pretty reasonable rate structure. Negative news checks also establish potential reputational risks from media archives, and checks against legal databases detect the litigation history of the prospective client or third party.

How often do you revisit your due diligence process and associated objectives?

Client organization needs to maintain a comprehensive record of relevant documents, assessments and decisions to ensure VMO can demonstrate ROI and prove that decisions to engage with partners or third parties were made in good faith. Business needs change over a period of time. Client companies should commit to recurrent reviews with stakeholders to ensure that third-party due-diligence process is always aligned with business needs over time.

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Santosh Sharma is the Chief Sourcing Auditor at **Sourcing Auditors**. Sourcing Auditors focuses on effective Contract Governance© to help clients derive fullest value from the Contract, safeguard and protect their organization against any external threat or internal non-compliance and continuously strive to improve the stakeholder satisfaction levels from the Contract. Sourcing Auditors uses a uniquely designed, best practices-based and highly comprehensive Audit Framework© that uses about 1200+ sourcing parameters to ensure Contract Compliance©, Contract Optimization© and Contract Improvement©. For more information please contact santosh.sharma@sourcingauditors.com