

Importance of researching and vetting third parties

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Numerous risk management procedures can be employed in support of an organisation's best interest. However, few practices are as significant as due diligence.

Due diligence involves meticulously understanding third parties, which include suppliers, partners, acquisition targets, contractors, resellers, grant applicants, and other associates. A key aim is to root out risks such as bribery, corruption, fraud, money-laundering, terrorist financing and other red-flags before and during financial transactions with third parties. Legal and business due diligence make up the two branches that organisations are required to employ when dealing with third parties.

Legal due diligence: In instances of purchasing a business, entering into partnership or merging operations – legal due diligence is vital. Involvement in white-collar crime in South Africa can result in penalties of up to R1 billion and life imprisonment, while companies that fail to mitigate operational, financial, legal and reputational risk – by not complying with AML and Know Your customer (KYC) regulations and not reporting suspicious activity – can also be fined up to R100 million or face imprisonment of their leadership. With the risk of fines, imprisonment and an additional risk of reputational damage, compliance with anti-money laundering regulations is not negotiable.

Business due diligence: Accountable organisations are also advised to apply a risk-based approach to AML compliance by understanding their suppliers, contractors, resellers, grant applicants, customers and other associates. While business due diligence assists with meeting legal requirements, it also assists with avoiding reputational risks and financial loss, while providing information that could come in handy during negotiations.

No matter what the strategic alliance may be, in-depth examinations of prospective business associations is a must, says Rudi Kruger, General Manager of LexisNexis Data Services. “Never take for granted that the companies you aim to do business with are what they present themselves to be. Trust this method of due diligence to empower the decision-making process ahead of any transactions with third parties and after the association is formed.”

In a snapshot, effective and ongoing due diligence efforts will enable organisations to:

- Research and vet potential investment opportunities, partnerships, acquisitions, or other strategic alliances.
- Avoid the legal penalties, costs, and reputational damage of being associated with unethical or criminal associates.
- Ensure compliance with local and international anti-bribery legislation.
- Seek information on your potential business associates' legal history, including local and international cases to determine how litigious an individual or company may be.
- Thoroughly understand the organisations and individuals with whom the company interacts and/or does business.
- Better comprehend the complex relationships and affiliations between companies and individuals or companies and other companies.
- Research and stay up to date on key developments with respect to key clients, suppliers, contractors, or partners.
- Ensure the ongoing financial health of key suppliers, clients, or other entities the business relies upon.
- Conduct ongoing screening and monitoring, particularly around high risk third-parties to ensure you are alerted to any changes as soon as they happen.
- Understand that the onus to perform these procedures is on the institutions, not the criminals or the government.

Due diligence efforts are enhanced by online research tools such as Lexis®Diligence and Lexis®ProcureCheck. Lexis®Diligence, a risk management solution from LexisNexis Data Services, which brings together all the intelligence businesses need in one place to conduct consistent due diligence checks in-house on individuals, clients, partners and

suppliers. Lexis®ProcureCheck assists the procurement, compliance, forensic and internal audit departments in their procurement vetting process and vendor management, by offering an online automated workflow tool that will assist in mitigating risk effectively and efficiently.

For more information, visit: <https://www.lexisnexis.co.za/lexisdiligence> and <https://www.lexisnexis.co.za/lexisprocurecheck>.

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