

Fifty Shades of Red: Early Warning Signs of Corruption

Conducting Corruption and Bribery Risk Reviews Using Publicly Available Information

Recent media reporting surrounding alleged acts of corruption and bribery by major Australian companies highlights the continuing need for business to review prospective business partners and their networks.

Business managers can use publically available information to identify early warning signs of corruption even when you are effectively on the outside looking in.

Red Flags

“Red Flags” are risk indicators or barometers that are useful for assessing the potential for corrupt or other illicit behaviours in a business or transaction. A Red Flag will often not be direct evidence of corruption, bribery or a ‘deal breaker’ but they do need to be considered in the context of the transaction, industry, geography and the situation being examined. Importantly, managers do need to know which shades of red to look out for and which ones to look in to. Simple automated database searches alone need to be supplemented with robust inquiry, iterative and critical reviews.

All basic company checks should include efforts to independently ascertain business or corporate information that exists in the public domain – this can include, but is not limited to – whether the business has been involved in any past litigation, regulatory infringements, license infractions and so forth. Alongside this, managers should conduct global sanction and compliance database checks, as well as cross checks of directors and company owners to see if they hold interests in competing businesses or whether there are political, government, family or other issues. This process should be standard to all due diligence checks.

Corruption Warning Signs

Moreover, an iterative investigative methodology and a critical analysis of facts are the key to a robust and comprehensive due diligence. Some key areas to look for when undertaking reviews for corruption, bribery and other risks are set out as follows.

Business Acumen

Firstly, simply asking whether a given business situation actually makes sense can be a good starting point. This sounds basic but, simply charting out company holdings, the structure, location, timing of events, the people and entities involved, and other business links can raise a number of questions about an otherwise innocuous business relationship.

Information Asymmetry

Next, the origin, source and veracity of the information about the subject company needs to be scrutinised. Often, the ability to make a clear assessment may be hindered by ‘information asymmetry’; that is, all the information about a company may only come from one source (in some instances this being the company themselves!). In addition to a company’s own biased marketing materials, efforts to chart the business ownership structure may be hindered if it is registered in an opaque jurisdiction obscuring true ownership. If the above charting exercise cannot be accomplished via independent public sources then you need to question how comfortable you are with the veracity of the situation as it is presented.

Second Hand Information

When reviewing media, trade, industry and journal reports, it is also important not to simply repeat others’ reports of Red-Flags. For example, whilst it is necessary to research and report what industry observers might have previously written concerning a suspicious government or political relationship, the simple repetition of others’ observations may not always unearth all the salient facts about a matter. Searching online litigation, regulatory and other databases, for actual records, transcripts or reports, is vital to corroborate and or ‘triangulate’ all information sources. Other ‘sense’ checking tools may include testing to see whether business addresses match the business purpose – for instance, does the company have their registered office in an industrial area where a client facing office would be expected or vice versa? Why is the company registered in an opaque business jurisdiction and yet claiming to conduct business half a world away in a developing nation? Do company executives have no or low public references, advertised qualifications or experiences when they are supposed to be a ‘highly qualified’ broker, engineer, accountant, lawyer or consultant? Again, simply raising these questions is logical, prudent and defensible.

Absence of Active Operations

During a due diligence review of partners, suppliers and vendors, there may initially be nothing overtly wrong with a subject company but, there may also be nothing distinctly

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'right' about it either. For example, when initially examining a supplier, consultant or a vendor, a Red Flag may actually be the absence of signs that point to active operations, there may be no evidence of an established business footprint in their geography or sector and there may be a lack of obvious clients. Payments or business dealings with such a company could therefore warrant further queries, questions and verification as to what they actually do for, or in, the business' network.

Know Your Customer and Know Your Supplier Checks

Further, in a world of increasing business cost pressures and efficiency drives, simply asking why additional layers of agents, brokers, consultants, duplicate services, subsidiaries, licenses or facilities are needed is a prudent and highly defensible query. Further information regarding [Know Your Customer \(KYC\)](#) and [Know Your Supplier \(KYS\)](#) processes can be accessed via the respective links.

Red Flag Deterrents

Whilst many Red Flags may turn out to be innocuous or ultimately explainable, the mere fact that efforts of inquiry and diligence have been made and questions posed, may act as a deterrent to corruption, bribery or other illicit behaviour. Importantly, it demonstrates to investors, regulators and other stakeholders that the company will not be 'wilfully blind' to corruption and bribery and is keeping a watchful eye on their business.

Absence of publicly available information

At times however, there may be no public records available to establish company registration, ownership, licensing or to inquire about a subject's regulatory, litigation or bankruptcy history. This often occurs with companies established in emerging, developing or opaque jurisdictions and is a type of 'information asymmetry' as described above. Together with other salient issues identified through the public record reviews, a juncture may be reached whereby a critical decision must be made as to how comfortable the business is in proceeding with a relationship or transaction under these circumstances.

How FTI Consulting Can Help

The Global Risk and Investigations Practice (GRIP) of FTI Consulting provides a multidisciplinary approach to a broad range of critical investigations including business intelligence services where companies require in depth discreet inquiries into potential business partners. We combine the skill and experience of expert investigators and intelligence analysts, comprising former prosecutors, law enforcement officials and regulators with in house forensic accountants and computer forensic specialists.

Our teams are based in offices located in Australia and Asia as well as North and South America, Europe, Africa and the Middle East. With our global footprint and multilingual capabilities, our professionals can readily deploy throughout the world to quickly assess a situation and design an appropriately scaled investigation to be performed in a phased and cost-effective manner.

We apply functional expertise with a deep understanding of the investigative process in order to conduct sophisticated investigations, uncover actionable intelligence and perform value-added analysis. We help decision-makers address and mitigate risk, protect assets, remediate compliance requirements, make informed decisions and maximise opportunities.

FTI Consulting can undertake the comprehensive public record research and inquiries as outlined in this paper, applying iterative and critical analysis and documenting the due diligence review process. Our researchers are also supported by teams of investigators throughout Asia and the globe that may undertake document retrieval, local language translation or further inquiries where needed.

In circumstances where there are Red Flags, information asymmetry or other salient issues, our global network of researchers, analysts and local investigators can also help. Through the use of local inquiries across a range of business, industry and geographic sectors, FTI Consulting can fully explore issues, conduct robust inquiries and establish facts. Our 'on the ground' investigation teams follow sound and robust methodologies, ensuring corruption and bribery risk reviews are thoroughly and diligently assessed.



For more information on our activities across Asia Pacific and how FTI Consulting can help your business, please contact us on info-ap@fticonsulting.com.

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FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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