

## CEP Magazine – October 2018

# Do you know how to audit a third party in the supply chain?

---

by Mónica Ramírez Chimal, MBA

Mónica Ramírez Chimal ([mramirez@asserto.com.mx](mailto:mramirez@asserto.com.mx)) is Partner and Founder of her own consulting firm, Asserto RSC, in Mexico City, Mexico.

Great! Your business is expanding, and with that you need more suppliers, vendors, agents, and distributors in different cities — some even in other countries. You get the contract signed, and everything moves according to it...until certain news changes everything. A supplier is using people who entered the country illegally, students, or minors, or they are not complying with the labor, health, and security requirements needed to operate.

You can think, “Well, that is their problem. I have hired them to perform certain activities, so it is not my problem who or what they use to do it.” Wrong! This is your problem, and it could cost you a lot, from damage to your company’s image and reputation to loss of sales, fines, compliance and legal issues, etc.

So how can you prevent this situation?

### **Identify contract scope**

Let’s start with the contract. In order for you to review or audit and have access to the third party’s processes, personnel, facilities, etc., the contract should include a “right to audit” clause.<sup>[1]</sup> Make sure you have it, and if not, add it immediately.

Add to it the scope for anti-money laundering, fraud, anti-bribery, labor abuses, poor working conditions, etc. Include the risks that are more likely to happen in your business, and verify in advance the regulation of the third party, just like an inventory. Does the contract comply with their regulation and yours too? Is the contract clearly written? Are costs accurately identified and understood by all? Are third-party risk management roles and responsibilities clearly defined within the organization?

### **Make sure to audit annually**

Send a team from your company to carry out an audit at least once a year. I suggest that either Internal Audit or Compliance does it, since the risks can affect one of them or both. The content of the review will be determined by the scope. Ask for documentation and ask to interview personnel. Do not rely on interviews from only top management. Include every level so you can have a better picture of what is going on in the company. The examples mentioned in the scope require interviews; do them.

This document is only available to members. Please log in or become a member.

[Become a Member Login](#)