

# COVID-19 and Business Integrity

## Guidance for Investees

### **The pandemic presents heightened business integrity risks which companies should proactively manage.**

The economic upheaval resulting from the global response to the coronavirus, COVID-19, presents significant commercial and strategic challenges. This unprecedented crisis also increases business integrity risks which, if not managed, could impact a company's reputation and have significant financial implications well beyond the current crisis.

Integrity risks are heightened because a crisis mentality increases the likelihood that individuals and businesses will take greater risks, shortcutting procedural safeguards and circumventing controls. It is important companies do not deprioritise compliance and business integrity risk management, particularly as financial pressures increase and opportunities for savings are identified.

The following are illustrative examples of how integrity risks may manifest:

- During social distancing, lockdown, and work from home scenarios, companies may face challenges implementing controls – for example, financial controls and internal audit – that require either manual or on-the-ground presence, access to documentation and face-to-face interviews.
- Increased demand, supply chain shortages, and urgency may also lead businesses to circumvent key procurement processes, creating opportunities for corruption, through bribes or kickbacks for access to limited resources, and increasing risks related to fraud, conflict of interest, and money laundering.
- Disrupted business operations and supply chains may lead to attempts to onboard new third parties (suppliers, service providers, logistics companies etc.) without adequate due diligence. Companies under significant revenue pressure will also face higher tax evasion risks. The influx of funds as part of government packages to mitigate the economic impact of COVID-19 may create opportunities for corruption, fraud and kickback schemes in an effort to access these additional resources.

This note provides initial guidance on how to manage such business integrity risks in the context of COVID-19. This guidance should be considered alongside relevant local laws and regulations, with CDC investees complying with the latter at all times.

This document is not intended to provide advice on business continuity or other business risks that companies may face as a result of COVID-19. If you are facing or anticipate any risks to revenue or business continuity, please speak to your CDC investment lead.

Published: April 2020

### **Important note**

CDC Group plc (CDC) is the UK's development finance institution and not the US Center for Disease Control and Prevention. This guidance does not constitute medical advice and is not a substitute for professional advice from international public health organisations such as the World Health Organization, national public health authorities, and national governments, which should be consulted for qualified and more detailed information.

### **Disclaimer**

This guidance is for general information only and is not intended to be used and must not be used as legal, commercial or business continuity advice, whether generally or in relation to any specific company, risk or other COVID-19 related issue. The contents of this guidance are based upon conditions as they existed and could be evaluated as of 7 April 2020 and CDC does not undertake any obligation to update any of the information or the conclusions contained herein or to correct any inaccuracies which may become apparent.

## Implementing a response

Companies should aim to implement the following as part of their initial response to integrity risk management in the context of COVID-19:

- Continue to allocate appropriate resources for integrity risk identification, assessment and management. If the company has formed a core group of employees for crisis management, ensure adequate representation of a risk or compliance manager in this group.
- Monitor regulatory developments resulting from the COVID-19 situation that could impact operations.
- Ensure ongoing compliance with existing policies, procedures and codes of conduct pertaining to governance, conflicts and financial crime risks.
  - Consider planning a virtual refresher training for senior management on key business integrity-related policies.
  - Disseminate regular reminders via email about key policies and procedures, and the importance of adhering to these during the crisis.
- Devise clear policies and procedures for the governance of expedited decision-making, recognising that urgent decisions may be required over the coming weeks and months. For example, companies may pre-emptively develop a new procedure for an expedited procurement process.
- Continue to meet all reporting obligations. The way in which COVID-19 impacts business operations and resulting integrity risks will continue to evolve, and companies will need to adopt a dynamic approach to risk and compliance reporting.
- Telephonic or virtual updates to employees or other relevant stakeholders should be minuted and properly documented.
- Refresh integrity risk ratings, as appropriate, using a COVID-19 lens (see below for additional information on risk assessments).
- Clearly and regularly communicate ongoing commitment to maintaining high business integrity standards, both internally and externally, including to investors, associated companies and partners.

## Risk assessment

The following types of companies are likely to face heightened business integrity risks during the COVID-19 crisis, and engagement may require ongoing monitoring. The following list is illustrative, not comprehensive.

- Companies in the healthcare sector or healthcare supply chain, currently facing a surge in demand for products and services, including through government requisitioning. Such companies will be at higher risk of non-compliance with business integrity policies and procedures.
  - Healthcare facilities that become overwhelmed may face increased corruption risks if informal payments are either demanded or volunteered in exchange for preferential treatment and/or access to limited supplies.
- Companies providing other essential goods or services, particularly those that may be requisitioned by governments to support efforts to fight COVID-19 (e.g. in the real estate and hospitality sectors, which may be repurposed as makeshift medical facilities).
- Companies with significant, increasing or first-time government exposure, particularly in the form of public procurement or licensing.
  - Companies seeking to win government contracts or avail of business opportunities resulting from the crisis may be incentivised to pay bribes, kickbacks and facilitation payments.
  - Companies engaging with government departments for the first time may be unaware of regulatory requirements and procurement protocols and thus more vulnerable to bribery demands.
- Companies that are likely to face significant revenue pressure, including those at heightened risk of non-payment by government clients.
- Companies facing supply chain disruptions, including contractual breaches. In the short-term such companies may be at a higher risk of circumventing normal procurement procedures and due diligence processes when onboarding alternative third parties. In the long-term, these companies may face higher litigation risks and contract disputes.
- Companies likely to be affected by border closures (import, export, logistics, etc.) and thus incentivised to pay bribes to border and customs officials.
- Companies with weak IT infrastructure that are more susceptible to cyber security and data protection breaches. There could be delays and challenges in digital access to company data. The level of risk might increase because of lack of digital access to company data. This might be critical for entities in the financial services sector who handle large amounts of sensitive client/customer information.

- Companies with pending or overdue audits or where financial crime breaches were suspected or under investigation at the time that lockdowns commenced.
- Companies with a high volume of cash transactions or non-digitised financial controls. Key processes may be disrupted during social distancing and lockdown scenarios, potentially increasing fraud risks.

### Oversight and engagement

The following are illustrative examples of business integrity oversight, engagement and other interventions that companies should consider, in addition to reiterating the expectation that employees, third-parties, and partners operate with integrity and transparency:

- Identify and allocate resources to maintain an adequate compliance function and/or business integrity risk management oversight.
- Review key standard operating procedures (SOPs) to maintain transparency and accountability in the short and medium term.
- Provide virtual business integrity trainings, particularly for individuals that may be increasing their exposure to government departments or participating in public procurement processes for the first time.
  - Trainings should cover key business integrity risks such as money laundering, corruption, fraud and conflicts of interest.
- Establish dynamic – and where needed, virtual – compliance reporting mechanisms; on a risk basis, consider increasing the frequency and depth of compliance reporting, including extending risk assessments to the company's supply chains.
- Review existing whistleblowing policies, grievance mechanisms and escalation procedures to ensure they are fit for remote working scenarios.
- Monitor the implementation of financial controls and ensure a robust system for reviewing all expenditure is in place.
- Conduct legal review of contracts that may be breached or delayed as a result of the COVID-19 crisis. This will help to anticipate any litigation and plan for adequate legal resourcing.
  - Companies should be aware whether contracts had force majeure or hardship provisions and comply with procedures outlined to avail of relief under those circumstances. Companies should also review relevant consumer protection legislation to see if it can fall back on any provisions therein.

### Anticipating long-term shifts

The present COVID-19 crisis may lead to long-term shifts in the way that companies carry out business integrity risk assessments. The following examples are illustrative, not comprehensive:

- Supply chain risk assessments to identify when disruptions would lead to heightened bribery and corruption risks. Adequate due diligence will be required where companies transition to localised supply chains.
- Evaluation of companies' business continuity plans from an integrity risk management and preparedness perspective.
- Independent review of company valuations, particularly for companies in sectors most affected by COVID-19.
- Review of IT systems in light of increase in remote working and resulting implications for cyber security and data protection.

While companies tackle immediate concerns resulting from the COVID-19 crisis, they should also take a long view, and recognise that business integrity lapses during the present situation could in the long run result in financial losses, regulatory action, litigation or irreparable reputational damage. An ongoing, robust approach to business integrity risk management can help mitigate these risks, even during this uncertain time.