



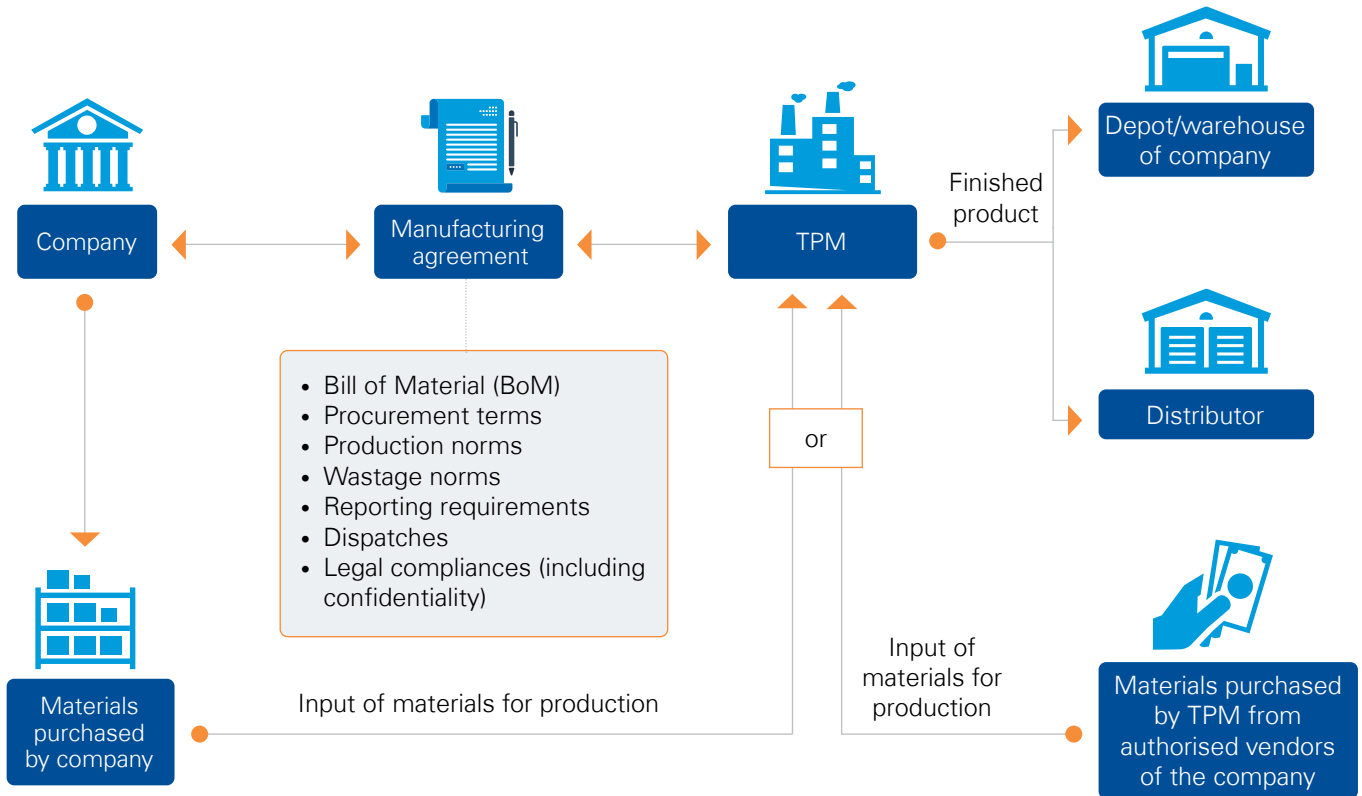
# Third party manufacturer operations review

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## The focal point...

A typical Third Party Manufacturer (TPM) operation chain can be represented as below:



Our focus is to help companies identify and address the fraud risks arising from vulnerabilities in TPM operation chain described above.

## Key vulnerabilities you should watch out for

### Contract manufacturing agreement

#### Breach of key terms of contract manufacturing agreement including but not limited to:

- Unauthorised use of production assets provided by the company
- Procurement from un-authorized vendors
- employment of child labour
- Breach of wastage norms
- Non-compliance with standard Bill Of Material (BOM) for manufacturing
- Breach in quality standards set under the agreement.
- Parallel production undertaken for competitors

- Leakage of trade and commercial secrets

### Manipulation of production records

- Underreporting of production and diversion of production either to unauthorised sales channels or for counterfeit sales.
- Over reporting of wastages and diversion of material for parallel production meant for sales in either the grey market or counterfeit sales.
- Manipulation of quality clearance norms to indicate rejection of materials and diversion of material for parallel sales.
- Manipulation of production records to comply with service level key performance indicator.

## Inventory management

- High levels of slow/non-moving inventory held by TPM.
- Theft/diversion of raw material/packing material/ finished products held by TPM.
- Non-compliance to defacing/scraping requirements of rejects/damaged goods.
- Collusion with scrap vendors to divert damaged/scrap goods for resale/counterfeiting in unauthorised sales channels.

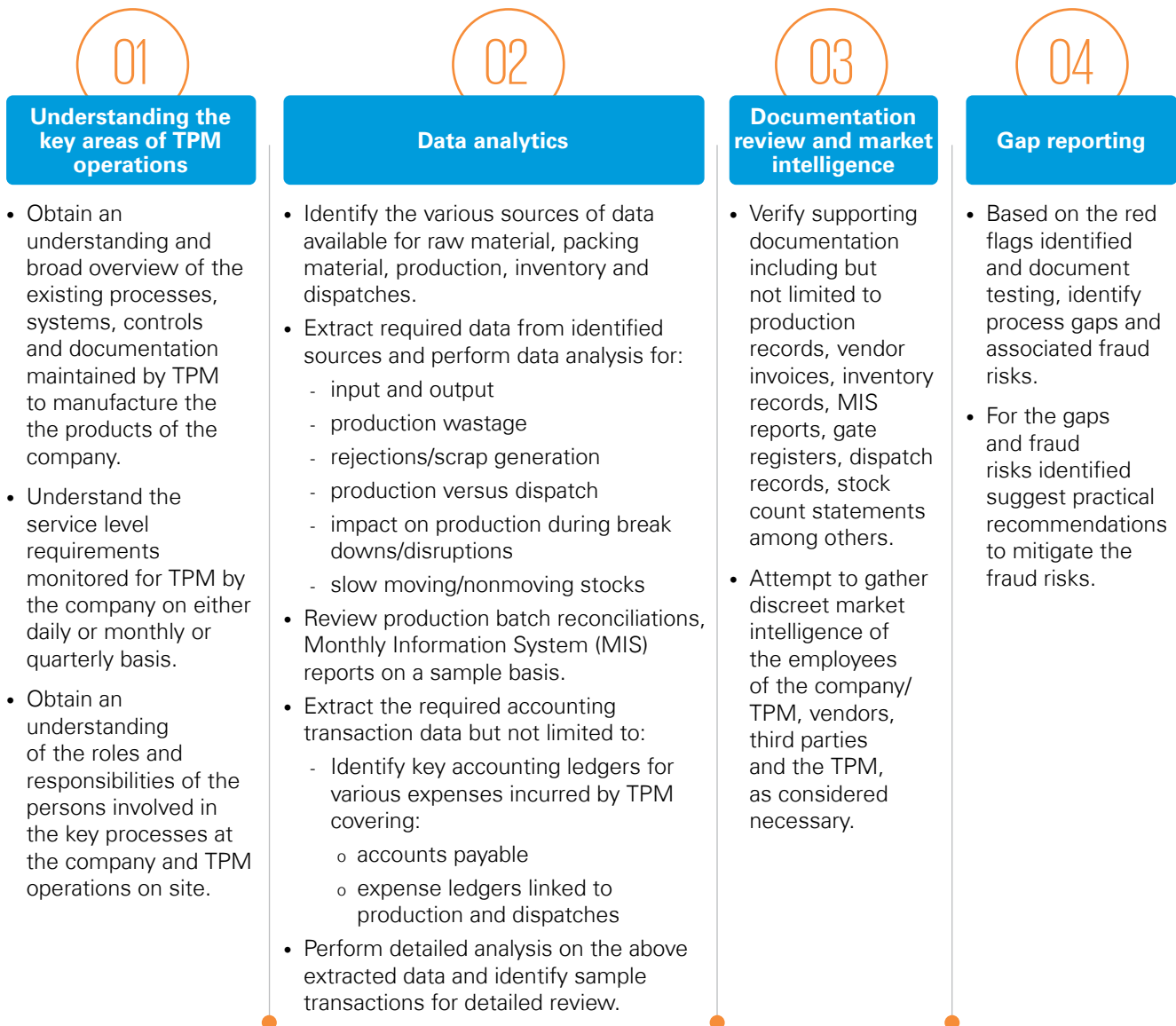
## Bribery and corruption

Making improper payments either directly or indirectly to authorities interacting at various points with TPM for the below:

- licenses
- permits
- product testing/quality checks by certified third parties
- taxation

## How we can help you

Our approach to conducting a TPM operations review is detailed below:



While this is the broad outline of our approach, it is highly customisable, and can be modified to suit the specific requirements of the client.

## Potential benefits

- Identify fraud risk areas in TPM operations for the company.
- Implement practical recommendations to address the control gaps in existing systems and processes.
- Make suitable changes to the manufacturing agreement with TPMs if required.

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