Bribery and Corruption

Introduction

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CPE PIN Instructions
Introduction

- Corruption schemes make up 38% of occupational fraud cases and cause a median loss of $250,000.
- Bribery and corruption risks are on the rise.
Anti-Corruption Enforcement Is on the Rise

- The United States, United Kingdom, and a number of transnational organizations have made corruption a priority.
- The Foreign Corrupt Practices Act (FCPA) and UK Bribery Act 2010 are at the center of anti-corruption efforts.
- However, there has been a notable increase in anti-corruption laws, regulations, and enforcement activities in many regions.
Global Trends in Anti-Corruption Enforcement

- Increase in the number of enforcement actions
- Increase in the penalties paid by companies that settle in enforcement actions
Global Trends in Anti-Corruption Enforcement

- Emphasized individual liability in some jurisdictions
- An increase in cooperation among enforcement authorities in different countries
- A majority of anti-corruption cases involve the use of third-party intermediaries
What Are Bribery and Corruption?

- **Corruption** is the wrongful use of influence to procure a benefit for the actor or another person, contrary to the duty or the rights of others.

- Corruption schemes include:
  - Bribery and kickbacks
  - Illegal gratuities
  - Economic extortion
  - Undisclosed conflicts of interest
What Are Bribery and Corruption?

- **Bribery** involves offering, giving, receiving, or soliciting anything of value to influence an official act or business decision.
  - Official bribery
  - Commercial bribery
- **Kickbacks** are improper, undisclosed payments made to obtain favorable treatment.
What Are Bribery and Corruption?

- **Illegal gratuities** are something of value given to another party to reward a decision after it has been made, rather than to influence it before the decision is made.
What Are Bribery and Corruption?

- *Economic extortion* is present when an employee or official, through the wrongful use of actual or threatened force or fear, demands money or some other consideration to make a particular business decision.
What Are Bribery and Corruption?

- A *conflict of interest* occurs when an agent has an undisclosed interest in a transaction that adversely affects their professional role.
- To be classified as a conflict of interest scheme, the employee’s interest in the transaction must be undisclosed.
Methods of Making and Concealing Corrupt Payments

- Inappropriate or excessive gifts and favors
- “Loans”
- Use of credit cards or payments of credit card bills
- Sexual favors
- Overpaying for purchases
- Free use of an apartment or discounted rent, free use of a leased car, etc.
Methods of Making and Concealing Corrupt Payments

- Cash payments
- Payments by checks and other financial instruments
- Giving hidden ownership interest
- Selling or leasing property to the recipient at a value that is less than the fair market value
- Making promises of favorable treatment
- Hospitality
- Enhanced commissions
Red Flags of Bribery and Corruption

- Red flags of corrupt procurement employees:
  - Unusual amount of interest in contract or contractor
  - Accepts items not favorable to the organization
  - Acts outside their normal scope of duties
  - Declines a promotion to a position not involving procurement
  - Does not file their conflict of interest forms
  - Insists on using specific third parties
Red Flags of Bribery and Corruption

- Red flags of corrupt procurement employees:
  - Rarely or never takes a vacation
  - Accepts inappropriate gifts
  - Exhibits an unexplained increase in wealth
  - Has an undisclosed outside business
  - Socializes with procurement officials
  - Has family ties with contractors
  - Approves an unusually high volume of purchases
Red Flags of Bribery and Corruption

- Red flags of corrupt marketing employees:
  - Employee has a high success rate in markets where competitors are known to bribe.
  - Contracts have terms favorable to the organization’s products or services.
  - Employee has frequent hospitality and travel expenses for foreign public officials.
Red Flags of Bribery and Corruption

▪ Red flags of corrupt third parties:
  • Payments of unjustified high prices or price increases for common goods or services
  • Fees that are paid in cash
  • Fees that are made in a country different from where the underlying business takes place
  • Offers no apparent value to the organization
  • Charges high commission
  • Claims to have special influence
Red Flags of Bribery and Corruption

- Red flags of corrupt third parties:
  - Appears unqualified
  - Poor relations with competitors
  - Address, telephone number, or zip code matches an employee’s address
  - Incomplete address
  - Multiple addresses
  - Reputation for corruption
  - Contractor not on the approved contractor list
Red Flags of Bribery and Corruption

- Internal control red flags of corruption:
  - Poor internal controls over key functional areas
  - Insufficient capacity to monitor high-risk employees or units
  - Inadequate anti-corruption control plan
  - Lack of separation of duties in purchasing
Red Flags of Bribery and Corruption

- Internal control red flags of corruption:
  - Poor enforcement of existing policies
  - Poor documentation supporting award of contracts or subcontracts
  - Inadequate monitoring procedures
According to the Fraud Triangle, there are three interrelated factors that enable someone to commit fraud.

- Pressure
- Rationalization
- Perceived Opportunity
The Fraud Triangle
The Cost of Corruption

- Effect on market capitalization:
  - Public companies undergoing FCPA investigations lost an average of 2.9% of market cap.
  - Companies facing only bribery charges lost 1.5% of market cap.
  - Companies being investigated for both bribery and financial statement fraud lost 16.3% of market cap.
The Cost of Corruption— ACFE 2018 *Report to the Nations*

- Corruption schemes pose substantial risks to organizations throughout the world.
  - Most common form of fraud in all geographic regions
- Corruption was the most prevalent fraud committed in larger organizations.
- More than 50% of all cases in the energy, manufacturing, and government/public administration sectors involved corruption.
- 50% of corruption cases were detected through tips.
## Benefits of Fighting Corruption

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<th>Individual Company Action</th>
<th>Benefits of Engaging</th>
<th>Risks of Not Engaging</th>
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<tbody>
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<td>Reduce the cost of doing business</td>
<td>Criminal prosecution, in some jurisdictions both at company and senior management levels which can lead to imprisonment</td>
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<td>Attract investments from ethically oriented investors</td>
<td>• Exclusion from bidding processes, e.g., for international finance institutions and export credit agencies</td>
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<td>Attract and retain highly principled employees, improving employee morale</td>
<td>• “Casino risk” – no legal remedies if a counterpart does not deliver as agreed and/or keeps increasing the price for doing so</td>
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<td>Obtain a competitive advantage of becoming the preferred choice of ethically concerned customers/consumers</td>
<td>• Damage to reputation, brand and share price</td>
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<td>Qualify for reduced legal sanctions in jurisdictions like the US and Italy</td>
<td>• Tougher fight for talent when hiring new employees</td>
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<th>Collective Action by Business</th>
<th>Benefits of Engaging</th>
<th>Risks of Not Engaging</th>
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<td>Create a level playing field overcoming the &quot;prisoner's dilemma&quot;</td>
<td>Missed business opportunities in distorted markets</td>
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<td>Improve public trust in business</td>
<td>• Increased magnitude of corruption</td>
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<td>Influence future laws and regulations</td>
<td>• Policy-makers responding by adopting tougher and more rigid laws and regulations – internationally, regionally and nationally</td>
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(Source: [www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/clean_business_is_good_business.pdf](http://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/clean_business_is_good_business.pdf))
Course Objectives

In this course, attendees will learn how to:

- Navigate the legal elements of bribery and corruption.
- Comply with the FCPA and UK Bribery Act.
- Identify and prevent corruption in purchasing.
- Conduct corruption risk assessments.
- Implement and evaluate anti-corruption programs.
- Manage third-party risks.
- Conduct M&A corruption due diligence.
- Respond to evidence of corruption.
- Manage international investigations.