AUDITING
ANTI-BRIBERY & CORRUPTION PROGRAMS

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Presentation Outline

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1.0 INTRODUCTION

Corruption Defined:
“the soliciting, accepting, giving or offering of a gratification by way of a bribe or other personal temptation or inducement, or the misuse of abuse of a public office for private advantage or benefit”

Types of Corruption:
- Bribery
- Public theft
- Wilful mismanagement
- Nepotism
1.0 INTRODUCTION

Corruption Trends in Zambia

✓ The 2014 Trends Report published by Financial Intelligence Centre (the Centre) lists bribery/corruption as one of the most prevalent suspected crimes.

✓ Zambia Bribe Payers Index 2014:

  I. The possibility of an average public service seeker paying a bribe increased in 2014 when compared to 2012;

  II. The bribe demand, increased in 2014 when compared to 2012; and

  III. In 2014, the prevalence of bribery considerably worsened.
1.0 INTRODUCTION

Reasons for Paying Bribes by Individuals Seeking Public Services:

1. Avoiding delays;
2. Fear of service denial;
3. It’s a normal trend;
4. Reduce costs; and
5. Lack of information.
2.0 FINANCIAL INTELLIGENCE CENTRE

- The Centre was established in 2010 by an Act of Parliament (The Financial Intelligence Centre Act. No. 46 of 2010).

- The Primary role of the Centre is to requests and receives reports of suspicious transactions from financial institutions and other persons and entities, analyze the reports and disseminate the resulting intelligence to local law enforcement agencies and other foreign designated authorities to combat money laundering, terrorist financing & other financial crimes.
2.0 FINANCIAL INTELLIGENCE CENTRE

- Core functions of the Centre:
  
  I. **Receive**, Suspicious Transactions Reports (STRs) from Reporting Entities (REs)

  II. **Request** information from REs and other stakeholders concerning suspected ML/TF

  III. **Analyze** STRs (add value)

  IV. **Disseminate** information on suspicious transactions to Law Enforcement Agencies (LEAs) to combat ML/TF and any other serious offences
3.0 ANTI-BRIBERY/CORRUPTION “VALUE CHAIN”

- Financial Intelligence Centre: Produce Financial Intelligence
- Law Enforcement Agencies: Investigates & Prosecutes
- Courts: Adjudicates
4.0 LINK BETWEEN CORRUPTION & MONEY LAUNDERING

- Corruption is a significant contributor to proceeds of crime that become available for laundering (it is a predicate offence of ML);

- Corruption can impede the effective implementation of AML measures that have been adopted – such as interfering with the capacity of mandated institutions to perform their duties, or corrupting the relevant officials;

- Because of its connection to money laundering, corruption can prevent the adoption of effective measures against money laundering, and may succeed in doing so if not detected and checked.
5.0 OBLIGATION TO REPORT

- The FIC Act has designated the Zambia Institute of Chartered Accounts (ZICA) as a Supervisory Authority;

- Audit firms, whether providing internal or external audit services have an obligation to submit STRs;

- Because of the nature of work of internal auditors, they are in a unique position to flag possible corruption and money laundering;
6.0 NEED FOR ANTI-BRIBERY & CORRUPTION PROGRAMS

Factors making anti-bribery & corruption top corporate issues:

1. Globalization of commerce;
2. Extra territorial nature of some of the new legislation e.g. FCPA;
3. Increasing anti-corruption legislation;
4. Potential for serious financial loss;
5. Reputational damage.
7.0 COMPONENTS OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

The key components of an effective anti-bribery & corruption program include:

- Tone at the Top/ Governance Structure
- Risk Assessment
- Policies & Procedures
- Training & Communication
- Monitoring & auditing
- Investigations & reports
- Enforcement & Sanctions
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

TONE AT THE TOP/GOVERNANCE STRUCTURE

- Buy-in from organisational leadership;
- Issuing a Code of Conduct; and
- Anti-bribery & Corruption Policy endorsed by the Board.

**Internal Audit’s Role**

- Gain an understanding of the attitude of the Board & Senior Management;
- Assess whether that attitude is sufficiently restrictive; and
- Verify that the attitude has been adequately communicated in the organisation.
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

RISK ASSESSMENT

- This is the foundation of an anti-bribery/corruption program;
- Identifying and analyzing bribery & corruption risks throughout the organization;
- An important factor to consider at recruitment in terms of checking crime data bases (FIC being used by some entities).

Internal Audit’s Role

- Gain an understanding of management’s existing anti-bribery & Corruption program;
- Evaluate the inherent bribery and corruption risks; and
- Develop a risk based audit plan to assess the effectiveness of the anti-bribery & corruption program. This will include staff social/lifestyle audits.
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

POLICIES AND PROCEDURES

- Organisational standards should be clearly defined in well documented policies;
- Behaviour of employees, business partners, and third parties should be specified; (KYE as opposed to KYC and
- Third party dealings, payment processing, expense reporting & training.

Internal Audit’s Role

Sample test whether policies & procedures:
- Are documented appropriately;
- Are approved by appropriate management; and
- Comply with applicable laws & regulations.
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

COMMUNICATION & TRAINING

- Training should be provided to members of the organizations;
- Updates on changing regulations and country norms; and
- Self certification by various levels of management.

Internal Audit’s Role

- Should assess whether training and communication is tailored to the geographical region, function and job responsibility;
- Verify that training is provided to the appropriate employees; and
- Assess whether employees fully understand the organization’s anti-bribery policies.
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

MONITORING & AUDITING

- Continuous monitoring activities and individual audits should be performed; and
- To provide senior management & the board periodic updates.

*Internal Audit’s Role*

- Verify that a formal process for monitoring exists; and
- Assess whether its implemented properly and objectively.
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

INVESTIGATION & REPORTS

- Accessible, anonymous whistleblower hotline.
- Confidential & consistent investigation process.

**Internal Audit’s Role**

- Verify that formal defined processes & protocols for investigations exists;
- Verify that investigators have requisite skills, experience, objectivity & organizational independence; and
- Verify protocols for reporting alleged bribery or confirmed to the board or other authorities exist.
7.0 COMPONENT OF AN ANTI-BRIBERY & CORRUPTION PROGRAM

ENFORCEMENT & SANCTIONS

- Terminable bribery & corruption offenses should be clearly identified and the related sanctions should be explicit.

Internal Audit’s Role

- Do employees and third-party providers comply with the code of business conduct regarding bribery and corruption.

- Are cases of bribery or corruption evaluated objectively and sanctions consistently implemented in accordance with policy.
8.0 IDENTIFYING AND ASSESSING RISKS

- Risk assessment is essential to developing an effective anti-corruption program.

- COSO recognizes the important of risk assessment in developing any internal control framework:
  - It ensures efficient allocation of scarce resources;
  - It demonstrates that a company used due care in assessing its risks; and
  - It add credibility to the anti-bribery & corruption efforts.
8.0 IDENTIFYING AND ASSESSING RISK - CONT

The first stage of the bribery/corruption risk assessment should focus on actual risks posed by:

i. Nature of a company’s operations;
ii. Degree of business with governmental entities;
iii. Use of agents & other intermediaries;
iv. Geographical/ country where it does business; and
v. Regulatory environment.
The second stage will focus on:

- Identifying what policies & controls are in place to mitigate the corruption risk;
- Analyse the effectiveness or gaps in such policies and controls.

The third stage will focus on:

- Producing a plan to build an effective & efficient anti-corruption program based on:
  1. The present risk
  2. The current controls in place and additional resources available.
Common challenges faced by organisations during the identification & assessment of risk are:

- Risk assessment is viewed as a barrier to day-to-day business activities;
- Organizations struggle with the risk assessment process itself;
- Data interpretation to derive actionable insights is tougher than it’s made to look like;
- Risk assessment data do not always perfectly reveal the existing reality;
- Implementation of risk evaluation outcomes is not prioritized.
9.0 RISKS ASSOCIATED WITH BUSINESS EXPANSION

INTERNATIONAL EXPANSION, NEW BUSINESS MODEL & ACQUISITIONS

- Inheriting liability for past corrupt activities;
- Becoming liable for continuing corrupt activities that you failed to identify & stop;
- Overpaying for a business that was built on corruption;
- Inheriting corrupt employees from the acquired company;
- Becoming burdened with increased compliance costs required to change the new business that were not anticipated.
10.0 ADDRESSING RISKS ASSOCIATED WITH BUSINESS EXPANSION

ADDRESSING RISKS ON INTERNATIONAL EXPANSION, ACQUISITIONS

- Third party audit rights:
  - Rights to audit clause in contracts with agents, intermediaries or subcontractors.

- Anti-corruption due diligence:-
  - Background checks on key executives;
  - Interviews with key executive about past corruption & risks of corruption
  - Review of documents related to acquired company’s anti-corruption program
THANK YOU FOR YOUR ATTENTION