



– Practice Guide

AUDITING ANTI-BRIBERY AND ANTI-CORRUPTION PROGRAMS

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Executive Summary

Increasing globalization, legal complexities, and the potential for serious financial and reputational harm have made the risks of bribery and corruption, and audits of anti-bribery and anti-corruption programs, top corporate issues. Auditing anti-bribery and anti-corruption programs requires a team of auditors with collective skills, knowledge, and expertise in compliance, fraud, investigations, regulatory affairs, IT, finance, culture, and ethics.

On the global front, the U.S. Foreign Corrupt Practices Act (FCPA) and the U.K. Bribery Act are examples of strict legal regulations, each with far-reaching international implications. And evolving anti-bribery and anti-corruption legislation in China, Hong Kong, India, and other countries (see page 17) is further complicating the matter. Private and public sector organizations are increasing awareness of bribery and corruption exposures and fighting back through international accords, regional conventions, best practice guides, and information on perceptions and instances of bribery and corruption.

Anti-bribery and anti-corruption legislation has led to the development of organizational anti-bribery and anti-corruption programs with well-defined components, including tone at the top/governance structure, risk assessment (including third-party due diligence), policies and procedures, communication and training, monitoring and auditing, reports and investigations, enforcement and sanctions, and reviews and updates. Internal auditors in organizations with formal anti-bribery and anti-corruption programs have the opportunity to assess the effectiveness of each component and how all of the components work together to deter, curtail and detect bribery and corruption.

Internal auditors in organizations with non-existent or informal anti-bribery and anti-corruption programs have the opportunity to help their organizations establish a baseline by identifying and investigating red flags in high-risk areas

such as third-party relationships, gifts and entertainment, political contributions, and procurement. Audit observations in these and other areas can be leveraged by the organization to prioritize its anti-bribery and anti-corruption initiatives as input to developing and sustaining a formal anti-bribery and anti-corruption program.

Auditing anti-bribery and anti-corruption programs requires varying levels of collaboration and information sharing with other governance functions such as regulatory compliance, external auditors, investigators, and the governing board. Before getting started, the chief audit executive (CAE) or lead internal auditor should consult with the organization's general counsel or legal representative to gain a full understanding of potential legal implications of the audit scope, fieldwork, and findings.

Introduction

In 2009, The IIA released Internal Auditing and Fraud, a practice guide designed to increase internal auditors' awareness of fraud and provide guidance on how to address fraud risks on internal audit engagements. As described in the practice guide, corruption is one of several common fraud schemes and bribery is a form of corruption. This practice guide complements Internal Auditing and Fraud by providing specific guidance for assessing the effectiveness of an organization's system of internal control for bribery and corruption. Other related IIA guidance includes the following Practice Guides: Reliance by Internal Audit on Other Assurance Providers and Auditing the Control Environment. As well, the IIA's Audit Executive Center has published a Knowledge Briefing entitled Internal Auditing and the Foreign Corrupt Practices Act (membership required).

Business Significance

Organizations that ignore the potential impacts of bribery and corruption do so with peril. Regardless of the country, industry, or type of organization, global reach brings global

risk. Each region, government, and project has unique complexities, variables, and opportunities for bribery and corruption. However, risks have traditionally been greater for organizations in certain geographies and industries.

Related Risks

Bribery and corruption put businesses and governments at risk worldwide and affect organizations, private individuals, and officials. Bribery and corruption are found in private and public sector transactions and in dealings between the two. In fact, bribery and corruption have become major issues in the public sector and are especially worrisome when associated with government appointments. Bribery and corruption expose organizations to risks in achieving operations, reporting, and compliance objectives, and may result in:

- Stifled market competition.
- The impediment of economic growth.
- Barriers to improved standards of living.
- Compromised product quality.
- Higher prices.
- Diminished trust.
- Discouragement of foreign direct investment.

Related IIA Standards

The International Professional Practices Framework (IPPF) outlines the following *International Standards for the Professional Practice of Internal Auditing (Standards)* pertaining to fraud (inclusive of bribery and corruption).

Standard 1200: Proficiency and Due Professional Care

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Standard 1220: Due Professional Care

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

Standard 2060: Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Standard 2120: Risk Management

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

Standard 2210: Engagement Objectives

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

Definitions of Key Concepts

Board — the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions (*Standards*).

Bribery — the offering, giving, receiving, or soliciting of anything of value to influence an outcome (Practice Guide, Internal Auditing and Fraud).

Control — any action taken by management, the board, and other parties to manage risk and increase likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved (*Standards*).

Corruption — the misuse of entrusted power for private gain (Practice Guide, Internal Auditing and Fraud).

Fraud — any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage (*Standards*).

Red Flag¹ — a warning sign; a sign that there is a problem that should be noticed or dealt with (Merriam-Webster.com).

Risk — the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood (*Standards*).

Global Landscape

Private and public sector organizations worldwide are responding to the risks of bribery and corruption. Responses include:

- International accords, where member countries embrace an agreed upon system of principles with the intent to enact them into law. The United Nations Convention against Corruption and The United Nations Declaration against Corruption and Bribery in International Commercial Transactions are two examples.
- National laws.
- Codes of best practices.
- Regional conventions where recognized agencies, usually in regions with bribery and corruption problems, issue statements of intent.
- Public and private sector policy statements.
- Non-profit organizations that catalog instances of abuse, best practices, and government efforts to combat bribery and corruption.

Legislation

Many developed countries have enacted legislation to curb bribery and corruption. Other nations are considering new legislation or are in the process of adopting or updating current law. Appendix 1 provides comparative legislative highlights for select countries.

Several laws fundamentally affect how individuals work and many have international impacts. Two of the strictest legal regulations designed to combat bribery and corruption include the FCPA and the U.K. Bribery Act. Transparency International (www.transparency.org) also provides an overview of bribery and corruption legislation and emerging changes.

¹ By permission. From *Merriam-Webster's Collegiate® Dictionary, 11th Edition*
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U.S. Foreign Corrupt Practices Act (FCPA)

The FCPA prohibits U.S. persons and businesses from making payments to foreign government officials or politicians to influence business dealings. The FCPA also includes accounting rules that require transparency through appropriate accounting records, and works in tandem with anti-bribery provisions.

The IIA Audit Executive Center Knowledge Briefing, Internal Auditing and the Foreign Corrupt Practices Act, provides direction on aspects of the law and highlights best practices for CAEs and boards in assessing FCPA risks. Some of these best practices include:

- Internal auditors making sure controls are properly designed, well established, and documented.
- Assessing FCPA risk areas by evaluating policies and procedures.
- Organizationwide compliance initiatives to develop policies and procedures that identify corrupt practices.
- Board members ensuring that the organization's code of conduct and policies outline the steps needed to achieve FCPA compliance.

U.K. Bribery Act 2010

The U.K. Bribery Act provides prosecutors and courts with a strong framework to address bribery in the U.K. and abroad. It is considered wider in scope than the FCPA because it generally applies to the private and public sector. Compared with the FCPA, the U.K. Bribery Act defines bribery more broadly and applies a liability standard for failing to prevent payment of bribes to “associated persons.”

The U.K. Bribery Act defines *bribery* as the receiving or offering/giving of any benefit by or to any public servant or officeholder or to a director or employee of a private organization to induce that person to give improper assistance

in breach of his or her duty to the government or organization that has employed or appointed the individual. An occasion where such assistance might be sought would be in relation to the award of an export contract where a bribe might be used to influence the tendering process. The U.K. Bribery Act covers bribes paid to individuals who, although not holding an appointment in a relevant organization or national government, are nevertheless able to exert influence over such an appointee by reason of some personal, business, or other relationship. It also covers bribes paid in advance as an inducement to a person to act inappropriately or retrospectively pursuant to a previous promise, understanding, or agreement.

The act creates offenses for:

- Bribery.
- The act of being bribed.
- Bribing foreign public officials.
- Failure of a commercial organization to prevent bribery on its behalf.

These actions are illegal in or outside the U.K. if the bribe was paid by anyone associated with a U.K. organization.

Other Legislation and Anti-bribery and Anti-corruption Measures

Anti-bribery and anti-corruption laws and initiatives exist worldwide, but it is widely recognized that better laws, codes of practice, and enhanced enforcement actions are still needed. The following references provide information about the global scope of anti-bribery and anti-corruption measures (as of June 2013).

- Transparency International (www.transparency.org)
- The Organisation for Economic Co-operation and Development (OECD) Anti-Bribery Convention (1999) (www.oecd.org)

- OECD — Country Reports on the Implementation of the OECD Anti-Bribery Convention and the 1997 Revised Recommendation (www.oecd.org)
- United Nations — Working Group on the Review of Implementation (www.unodc.org)
- United Nations — Global Compact (www.unglobalcompact.org)
- World Bank — Department of Institutional Integrity (www.worldbank.org)
- World Bank Institute — Governance and Anti-Corruption (www.worldbank.org)
- World Economic Forum — Partnering against Corruption Forum (www.weforum.org)
- The African Union Convention on Preventing and Combating Corruption (July 2003)
- The United Nations Convention against Corruption (entered into force in December 2005)
- China — Anti-corruption measures (including the Criminal Law and the Anti-unfair Competition Law and Interim Regulations on prohibiting business bribery)
- Hong Kong — The Prevention of Bribery Ordinance (POBO)
- India — The Prevention of Corruption Act 1988 (PCA)
- Indonesia — Various laws including the Good Governance Law, Eradication of Criminal Acts of Corruption, Commission for the Eradication of Corruption (KPK Law), and the Corruption Tribunal (Corruption Tribunal Law)
- Japan — Several laws such as the National Public Service Ethics Act and the Political Ethics Law
- Singapore — The Prevention of Corruption Act (PCA); the Penal Code; and the Corruption, Drug Trafficking, and Other Serious Crimes (Confiscation of Benefits) Act (CDSA)

Effective Anti-bribery and Anti-corruption Programs and the Role of Internal Audit

A comprehensive anti-bribery and anti-corruption program should include entity-level, process-level, and transaction-level controls. The hallmark components of effective anti-bribery and anti-corruption programs include tone at the top, governance structure, risk assessment, policies and procedures, training and communication, monitoring and auditing, investigations and reports, enforcement and sanctions, and reviews and updates. Internal audit's role in anti-bribery and anti-corruption programs will depend on the organization's governance structure. Internal audit's level of involvement should be recommended by the CAE and approved by the board. Internal audit can play a significant reinforcing role in the importance of anti-bribery and anti-corruption programs.

Internal audit should assess the effectiveness of anti-bribery and anti-corruption programs to help anticipate the risk, and identify the existence of potential and actual incidents. Two different, but complementary, approaches that may be used exclusively or in conjunction with each other include:

- Auditing each component of the anti-bribery and anti-corruption program.
- Incorporating an assessment of anti-bribery and anti-corruption measures in all audits, as appropriate. In this approach, bribery and corruption risks should be incorporated into the risk assessment and scoping process of each audit. For example, a financial audit may include a review of cash transactions and a vendor management office audit might include a review of third-party due diligence practices. Each audit may:
 - › Include procedures to assess bribery and corruption risks.

- › Evaluate bribery and corruption scenarios.
- › Evaluate the control environment and anti-bribery and anti-corruption programs in that audit area.
- › Link the scope of an area’s audit procedures to its assessed risk.

Both approaches should utilize data analytics to look for red flags and obtain other audit evidence related to anti-bribery and anti-corruption programs¹. Internal auditors emphasizing an established program approach may find the guidance in this section particularly useful. Internal auditors favoring an “all audits” approach may want to focus on the next section, (Pg. 11) Risks, Red Flags, and Auditing Activities. However, both sections will likely prove beneficial, regardless of approach.

Tone at the Top/Governance Structure Component Overview

Effective risk mitigation starts with a strong tone at the top, setting the foundation for an overall compliance framework. The tone at the top is the ethical environment fostered by organizational leadership and the single most important factor in determining the organization’s resistance to bribery and corruption. No system of controls can provide absolute assurance against the commission of bribery or corruption. The board should, however, require the organization to develop comprehensive anti-bribery and anti-corruption programs.

Although each organization may have different methods for establishing the right tone, a good starting point is to issue a code of conduct and an anti-bribery and anti-corruption policy endorsed by the board of directors. Once the board has clearly committed to a strong policy, the best approach is zero tolerance and full compliance with anti-bribery and anti-corruption laws. This is not just ethically right; there also is increased pressure for compliance from legislative bodies and nongovernmental organizations.

Internal Audit’s Role

Internal audit should understand the attitude and tolerance of the board and executive management toward bribery and corruption risks, assess whether that attitude is sufficiently restrictive, and validate that this attitude has been adequately communicated throughout the organization. As such, internal audit should scrutinize the governance structure and the monitoring and oversight responsibilities related to anti-bribery and anti-corruption programs.

Sample Review Questions

For sample review questions and related guidance on auditing tone at the top and governance structure, see the following IIA publications:

- Practice Guide, Auditing the Control Environment.
- Practice Guide, Evaluating Ethics-related Programs and Activities.
- Practice Guide, Internal Auditing and Fraud.
- *Tone at the Top* newsletters:
 - › All Hands on Deck: Partnering to Fight Fraud (December 2013).
 - › Shining a Light on Corruption (August 2012).

Risk Assessment Component Overview

A comprehensive risk assessment identifies and analyzes bribery and corruption risks throughout the organization, including all locations and types of business. The risk assessment is a precondition for establishing the remaining components of the anti-bribery and anti-corruption program. It is critically important to review present and potential bribery and corruption risks, and to develop mitigating controls.

Internal Audit's Role

Internal audit should understand all aspects of management's existing anti-bribery and anti-corruption program before performing risk assessments. And internal audit should evaluate the inherent bribery and corruption risks as part of its comprehensive risk assessment. As well, the audit plan for assessing the effectiveness of anti-bribery and anti-corruption programs should be risk based.

Sample Review Questions

1. Does the organization use business intelligence resources to identify bribery and corruption risks when exploring business opportunities in established and emerging markets?
2. Does the organization regularly conduct due diligence on third-party providers?
3. Does the organization's due diligence process meet regulatory requirements for scope and thoroughness?
4. Are third-party agreement approvals in place?
5. Is there a history of lawsuits, fines, and penalties related to bribery and corruption?

Policies and Procedures

Component Overview

The organization's anti-bribery and anti-corruption standards should be clearly defined in well-documented policies. Detailed underlying procedures should explain how employees, business partners, and third parties should behave, and clearly specify what behavior is unacceptable and noncompliant. Policies and procedures establish constraints and define and embed an organization's attitudes and practices on fraud, bribery, and corruption. The policies and procedures should include protocols for third-party dealings, payment processing, expense reporting, and training. To safeguard against employee self-dealing, best practice policies also address conduct outside of the job and conflicts of interest.

Internal Audit's Role

Internal audit should sample test whether policies and procedures:

- Are documented appropriately.
- Are approved by appropriate management.
- Comply with applicable laws and regulations.
- Are implemented effectively.

Sample Review Questions

1. Do the anti-bribery and anti-corruption program standards comply with applicable laws and regulations?
2. Do policies and procedures address gifts and entertainment, meals and travel, charitable donations, and facilitation payments?

Communication and Training

Component Overview

Effective anti-bribery and anti-corruption programs require careful and continuous communication and training programs, updated to align with changing regulations and evolving country norms. General training regarding what constitutes bribery and corruption, how it harms the organization, and how to report it should be provided to all members of the organization. In addition, customized training should be provided by function or job responsibility to address specific bribery and corruption risks.

As an extension of training and communication, self-certification programs may further reduce risk. Various levels of management periodically certify that they have not paid bribes and have no knowledge of other employees or service providers having done so.

Internal Audit's Role

Internal audit should share information and work with other functions such as fraud investigation, legal counsel, compliance, and external audit. For example, South Africa's King Code of Governance makes this explicit by stating that the board should ensure there is an effective risk-based internal audit function that can be a source of information about instances of fraud, bribery and corruption, unethical behavior, and other irregularities. Also, in some countries, information on irregularities and illegal acts is required to be exchanged with external auditors and/or a competent regulatory agency.

Some internal audit groups also play a key role in training employees in anti-bribery and anti-corruption policies. When visiting other geographical locations, internal auditors may arrange meetings with employees to communicate the organization's anti-bribery and anti-corruption message. Internal audit also may collaborate with legal and ethics teams on training and anti-bribery and anti-corruption audits. During anti-bribery and anti-corruption training sessions, trainers should reference the FCPA, the U.K. Bribery Act, Professional Guidance for Internal Auditors on the U.K. Bribery Act 2010 (published by the Chartered Institute of Internal Auditors), and other relevant legislation and guidance. Internal audit must consider, however, whether their training and/or communication activities could impair their objectivity in any manner.

Sample Review Questions

1. Is the organization aware of its exposure to global bribery and corruption risks?
2. Is anti-bribery and anti-corruption training mandatory for all employees?
3. Do employees fully understand the organization's principal anti-bribery and anti-corruption policies?
4. Is training and communication tailored to the geographical region, function, and job responsibility?

5. Do employees periodically certify that they are compliant with anti-bribery and anti-corruption standards, and attest that they have no knowledge of any incidence of bribery or corruption?

Monitoring and Auditing Component Overview

Continuous monitoring activities and individual audits should be performed to:

- Ensure the effectiveness of anti-bribery and anti-corruption programs.
- Lower time to detection.
- Support continuous improvement and follow through on corrective action plans.

Monitoring and auditing documentation also may provide evidence that the organization was proactive prior to the discovery of misconduct.

Internal Audit's Role

There can be a gap between the perception of bribery and corruption risks on the ground, where an event would likely occur, and the more distant view at the board level. This is especially true if effective risk assessments, analyses, and communication are lacking. Organizations should establish effective monitoring systems that provide senior executives and the board with periodic updates. However, internal audit's monitoring activities should not supplant management's monitoring role.

Sample Review Questions

1. Does the organization have a formal process for monitoring the effectiveness of its anti-bribery and anti-corruption programs?
2. Is this process established to ensure objectivity?
3. Is this process implemented properly?

Investigations and Reports

Component Overview

Individuals at all levels should have support for resolving ethical dilemmas and making appropriate decisions. An accessible, anonymous whistleblower hotline for reporting suspected wrongdoing and seeking advice is crucial. Where local law permits, organizations also should offer a means to confidentially and/or anonymously report suspected bribery or corruption.

It is the responsibility of the board to ensure that the organization has an effective process for confidential investigation. A consistent investigative process including protocols for gathering and evaluating information, assessing potential wrongdoing, and administering penalties, may help mitigate loss and manage risk.

Investigators should have the authority and skills to evaluate allegations and take appropriate action. If an in-depth investigation is deemed appropriate, investigators should first secure approvals, as needed, from senior management, directors, legal counsel, and other appropriate oversight bodies. In certain circumstances it also may be necessary to make public disclosures to law enforcement, regulators, shareholders, the media, or others; however, this should only be done by those individuals deemed authorized to do so on behalf of the organization.

Internal Audit's Role

Investigations

The role of internal audit in investigating bribery and corruption allegations depends on internal audit's resources and the organization's governance structure. Consideration should be given to the unit's fraud, forensic, and IT skills. Some organizations may require bribery and corruption investigations to be conducted under the supervision of, and in coordination with, a special board committee, regulatory body, the legal department, or other group.

The suspicion, discovery, and investigation of bribery and corruption are sensitive matters. Internal auditors need

to understand the cultural and legal landscape of the operational jurisdiction involved, and be thoroughly familiar with local protocols for investigating and reporting. Internal audit also should collaborate with the board and senior management to establish protocols for reporting suspected or actual incidents of bribery and corruption.

The need for an investigation may surface during the course of an audit. If audit evidence indicates possible irregularities, the internal auditor should:

- Follow the reporting protocol and refer the matter to the investigation group. If internal audit suspects that management is involved in the irregularity, it should find the appropriate party to whom it can report.
- Perform and document adequate actions to support the audit findings, conclusions, and recommendations.

If audit evidence points to an illegal act, the internal auditor should seek legal advice directly or recommend that management do so. Internal audit should work with appropriate personnel, such as the fraud investigation unit, and management (if possible, at a level above the parties involved in the act) to determine whether an irregularity or illegal act has occurred and gauge its effect.

Sample Review Questions

1. What controls are in place to respond to bribery and corruption matters before they become significant issues?
2. Does the organization have formal, defined processes and protocols for investigating alleged bribery or corruption?
3. Do the persons responsible for investigations have the requisite skills, experience, objectivity, and organizational independence?

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4. Does the organization have defined protocols for reporting alleged or confirmed bribery or corruption to the board or other authority?

Reports

According to Standard 2060, the CAE must report periodically to senior management and the board on internal audit's performance. These reports must cover significant risk exposures and control issues, including those related to fraud and governance. Reports also should include bribery and corruption risks and exposures, potential violations, and estimated impact.

There may be resistance to reporting bribery and corruption to the board. Management and legal counsel may downplay the wrongdoing or may ask the internal auditor to delay reporting until corrective actions are taken. The internal auditor should clearly understand the board's communication requirements regarding bribery and corruption, including escalation, information type, and frequency. According to *IIA Standards*, if in the CAE's judgment there is significant unmitigated risk, those risks are to be communicated to management and then to the board. In most organizations, the board will direct the internal auditor to report concerns in full and without delay.

External reporting may be a legal or regulatory obligation of management, the individuals who detected the irregularities, or both. Notwithstanding this external-facing responsibility, the internal auditor's duty of confidentiality to the organization and professional ethics generally require reporting the matter internally before doing so externally. However, in certain circumstances, the internal auditor may be required to disclose an irregularity or illegal act. These circumstances could include compliance with legal or regulatory requirements.

When external reporting is required, the report should generally be approved by legal counsel prior to external release. It also should be reviewed with audit client man-

agement and the board, unless applicable regulations or specific circumstances of the audit dictate otherwise. In the public sector, some legal jurisdictions grant citizens the right to access any and all organization documents.

The IIA's Practice Guide, *Internal Auditing and Fraud*, describes typical roles and responsibilities for fraud prevention and detection. The same roles apply to anti-bribery and anti-corruption. For example:

- Fraud investigators usually are responsible for the detection and investigation of fraud and the recovery of assets. They also perform a role in fraud and corruption prevention.
- The fraud investigation unit and internal audit should work closely together and be aware of each other's findings. Fraud investigators often also work closely with legal counsel to bring legal action against perpetrators. The lead investigator usually determines the resources needed for the investigation and staffs the team accordingly. Internal audit can help in areas such as data analysis.
- Laws of the jurisdiction often govern the role of in-house legal counsel. House counsel generally acts in the best interest of the organization and also is required to preserve attorney-client privilege.
- When auditing financial statements, external auditors have a responsibility to comply with professional standards and to determine if there is reasonable assurance that the financial statements are free of material misstatement. If there are evident misstatements, the external auditors must ascertain whether they were caused by error or fraud.
- When external auditors find evidence of irregularities and illegal acts, professional standards typically require that the matter be brought to the attention of an appropriate level of management. If senior management is involved, the report normally goes

directly to those charged with oversight governance (e.g., the board or audit committee).

- Employees can report suspicions of irregularities and illegal acts to an employee hotline, internal audit, or a member of management. To deter and detect fraud and abuse, many experts believe an appropriately monitored employee hotline is the single most cost-effective tool for detecting irregularities and illegal acts.

Enforcement and Sanctions

Component Overview

Terminable bribery and corruption offenses should be clearly identified, and related sanctions should be explicit.

Internal Audit's Role

There should be a defined process that includes multiple organizational disciplines to evaluate cases of bribery or corruption and implement sanctions according to a formal policy.

Sample Review Questions

1. Do employees and third-party providers (e.g., agents, sales consultants, distributors, and vendors) comply with the code of business conduct regarding bribery and corruption?
2. Do employees understand how anti-bribery and anti-corruption program violations impact salary, promotion, and continued employment?
3. Are cases of bribery or corruption evaluated objectively and sanctions consistently implemented in accordance with policy?

Review and Updates

Anti-bribery and anti-corruption programs require ongoing monitoring of legal mandates. All components of these programs should be updated as necessary to ensure alignment with changing regulations and evolving country norms across all jurisdictions the organization operates within.

Risks, Red Flags, and Audit Activities

Risks

Corruption and bribery expose organizations to a broad range of risks to achieving established operations, reporting, and compliance objectives. Organizations should assess the likelihood, impact, and vulnerability of each identified risk. It should be noted that the impact of bribery and corruption on reputational risk may be severe even when financial impact is minimal — materiality may be irrelevant or secondary. Comprehensive controls are needed to combat bribery and corruption risks. The development of effective controls requires in-depth knowledge of an organization's internal and external operations.

Risk Areas

Most bribery and corruption involves cash payments, hospitality, gifts, travel, and employment. However, other inducements also come into play across many different areas of the organization. High-risk areas for bribery and corruption include geography and industry; hiring/employment; third-party/vendor management; gifts, entertainment, and political contributions; procurement; sales; finance; IT; upper management; and government relations.

Geography and Industry

Risk Area Overview

Some countries or jurisdictions where organizations operate in cash-based economies have a higher incidence of bribery and corruption. The local regulatory environment also impacts risks. Similarly, certain industries (e.g., construction/infrastructure) are more susceptible to bribery and corruption. It also is important to consider the respective industries of business partners and third-party relationships.

Through globalization, joint ventures, and partnerships, organizations may set up operations in parts of the world where the ethical environment differs from that of the home country or where the culture includes acts that would be considered bribery as an acceptable way to facilitate business. Risks may be compounded if anti-bribery and anti-corruption policies are not clear, detailed, translated into local languages, and relevant to regional business practices.

Red Flags

- Operations in countries with a reputation for higher risk of bribery or corruption.
- Activities with industries or specific organization's that have a reputation for a higher risk of bribery or corruption.

Internal Audit Activities

Where a culture of bribery and corruption exists, internal auditors of the parent organization should evaluate each situation, including those under joint venture/partnership, and discuss dilemmas with the board.

When senior management does not support a bribery policy and the organization is operating in a culture where bribery and corruption are common, the line between what is and is not acceptable is likely to be blurred. The internal auditor should evaluate acts and actions against

the organization's policy regardless of the apparent permissiveness of a particular environment.

Hiring/Employment

Risk Area Overview

The hiring process, including candidate background checks, is an important consideration for potential bribery and corruption. This is especially true in cases of mergers and acquisitions.

Red Flags

- Hiring employees with a history of wrongdoing.
- Phantom employees.

Internal Audit Activities

- Review effectiveness of policies and practices for confirming that personnel considered for employment in bribery-vulnerable roles do not have a history of wrongdoing.
- Confirm existence of employees in the country/location.
- Verify validity of employees.

Third-party/Vendor Management

Risk Area Overview

Relationships with vendors, agents, lobbyists, contract employees, consultants, and other intermediaries can be exploited by bribery schemes and often are at the heart of corruption. Third parties that engage in bribery and corruption expose the organization to compliance, financial, and reputational risks. See the section on procurement for additional related guidance.

Red Flags

- Unproductive or suspicious interviews with employees, agents, and contractors.
- Close personal or familial relationships between employees and vendors.

- Lack of competitive bid processes for vendors or customers.
- Use of agents or third parties to pay bribes.

Internal Audit Activities

- Review agent and other third-party selection and screening processes and due diligence practices.
- Review practices for staying current on third-party ownership and merger and acquisition activity.
- Review policies for hiring and retaining agents and contractors and training them in anti-bribery and anti-corruption programs.
- Ensure that contracts specify the expectation of compliance with the code of conduct and anti-bribery and anti-corruption regulations.
- Review contracts to ensure the existence of right-to-audit clauses.
- Review expenses reimbursed to third parties. Interview third-party employees.
- Evaluate use of agents and other third parties, considering reasonableness and necessity (i.e., whether it is reasonable to use the third party chosen for the specific task).

Gifts, Entertainment, and Political Contributions

Risk Area Overview

Travel, entertainment, and gifts given or received by the organization or the organization's employees can be methods of bribery.

Red Flags

- Excessive travel and entertainment expenses, especially for entertaining government officials.
- Frequent or excessive entertainment and gifts provided to customers, suppliers, or government officials.

- Frequent or excessive charitable and political donations.
- Inadequate or vague gift/hospitality/entertainment policies and/or guidelines.

Internal Audit Activities

- Review appropriateness of entertainment and gift policies.
- Review payments related to travel, entertainment, and gifts.
- Review approvals required for giving gifts.
- Perform keyword searches on travel and expense reports for inappropriate travel/gifts.
- Review compliance with the charitable donations policy.
- Review payments to charitable and political organizations.
- Consider relationships between charities and other parties (e.g., government officials and organization management).
- Confirm charities are bona fide organizations.

Procurement

Risk Area Overview

Procurement of high-value goods and services can be a common area for corruption.

Red Flags

- The existence of fictitious suppliers.
- Inappropriate acceptance of gifts, money, or entertainment expense payments in return for preferential treatment to providers bidding for goods and services.
- Conflicts of interest among members of assessment panels (for large procurements) and vendors submitting the bids, including vendors related to government officials.

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- Purchasing in installments with the same supplier (i.e., provider) to avoid the organization’s authorization levels and spending limits (structuring).
- Extending contracts for excessive periods of time without “testing the market” for better terms.
- Making a high-value purchase with a unique or exclusive supplier.
- Purchasing goods inconsistent with business needs, including overpaying for services and products.
- Inadequate spend data and vendor data or inconsistent data across procurement related systems.
- Use of sole-sourced vendors not properly vetted, including low compliance with corporate preferred buying guidelines.
- Inappropriate vendor creation and management and multiple appearances of the same vendor within the master file.
- Duplicate payments.
- Limited segregation of duties involving payments, credits, and reconciliation of vendors and suppliers.

Internal Audit Activities

- Review controls over supplier selection and vendor setup.
- Review vendor setup in the payment system.
- Review the competitive bid process.
- Test that goods and services are real and at market prices.
- Conduct supplier visits and interview suppliers.
- Validate vendor addresses.
- Validate vendor companies via publicly available records.

Sales

Risk Area Overview

Bribery is one way certain sales contracts can be obtained.

Red Flags

- Providing gifts, money, or entertainment to make a deal, increase sales, or otherwise gain advantage.
- Inadequate policy or guidelines detailing acceptable gifts, hospitality, and entertainment expenses.
- Making a deal with suppliers to fix prices or award a sale or contract.
- New or recurring sales or long-term contracts with the same government entity without proper bidding and negotiations.

Internal Audit Activities

- Review sales function expense reports and compliance with related policies and procedures.
- Review appropriateness of entertainment and gift policies, and related training and attendance records for sales personnel.
- Review sales contract and agreement approvals, terms, and conditions.
- Review compliance with government contract and agreement guidelines.

Finance

Risk Area Overview

Most bribery involves disbursement of cash and the recording of that disbursement in the financial records.

Red Flags

- Payments of cash to facilitate deals and transactions.
- Lack of supporting documentation for cash transactions.
- Lack of appropriate segregation of duties for control of cash, non-routine payments, or other transactions.
- Lack of, or poor supporting documentation for, expense reports.
- Cash used to pay bribes.

- The existence of off-balance-sheet bank accounts.
- Credit notes and rebates used as a method to pay bribes.
- Bookkeeping records insufficient to identify bribery schemes.
- Increasing or frequent write-offs of accounts receivable.

Internal Audit Activities

- Review end-to-end expense processing for check/wire/EFT, petty cash, employee payroll, and employee expense reimbursement.
- Review controls to establish bank accounts and signature authorities.
- Review bank reconciliation controls and performance of monthly reconciliations.
- Review controls over petty cash.
- Review travel and entertainment payments and reimbursements, as these are common methods of bribery.
- Review financial information, detailed accounts, bank accounts, and payment records to identify any off-balance-sheet accounts usable for bribery purposes.
- Review controls and test transactions related to credit notes and rebates.
- Confirm that the nature and amount of credit notes and rebates are consistent with business practices.
- Review accounting policies and practices to assess regulatory compliance.
- Reconcile balances between subledger and general ledger.
- Evaluate accounts to determine if parallel books are maintained in certain countries to disguise illegal or irregular transactions.

IT

Risk Area Overview

The IT control environment is a crucial area, especially with regard to access controls and segregation of duties for cash, and detection of unusual transactions.

Red Flags

- Limited segregation of duties involving payments, credits, and reconciliation of vendors and suppliers.
- Any procurement red flags related to the procurement or acquisition of IT infrastructure (see section on procurement).

Internal Audit Activities

- Review and test IT access controls related to vendor management, accounts payable, and accounts receivable.
- Test transaction level controls for segregation of duties.
- Review the vendor master file for additions, deletions, and changes.
- See related section on procurement.

Upper Management

Risk Area Overview

Upper management has a pervasive impact on the risk of bribery or corruption through the culture it helps foster and its own activities.

Red Flags

- Complacency by management or the board toward bribery and corruption risk.
- Inordinate attention to specific investigations by the management, who may be involved.
- Lack of a clear anti-bribery or anti-corruption policy.
- Lack of an objective process to investigate suspected cases of bribery or corruption.

Internal Audit Activities

- The internal auditor may be unsure how to handle bribery and corruption issues involving executives in the organization. Even just reporting such instances to the organization or board can be a challenge. The CAE may want to consult the general counsel.
- If the CEO is not involved in these matters and the reporting line between the CEO and the CAE is effective, there may not be any reporting difficulty. However, if the CEO may have been involved, special care is required.
- The CAE should communicate the matter to independent personnel such as board or audit committee members and the lead independent director. In certain jurisdictions it may be necessary to report to the applicable regulatory agency. If senior executives are involved, the bribery or corruption that occurred should be considered substantial to reputational risk, even if the infraction is relatively small or involves immaterial transactions.
 - › Some countries have set up governmental agencies for such reporting in the public sector. Internal auditors in the public sector should report matters to such agencies, as required.
- If the senior executives are engaged in bribery or condone an inappropriate culture, internal audit will need strong support from independent directors to improve the organizational environment.
- The organization may not have an anti-bribery policy, or it may operate in a bribery-tolerant environment. If so, the CAE should discuss the situation with the board to arrive at an appropriate course of action.
 - › In some situations, organizations do not condone bribery but seek to operate in countries where such activities are prone to occur. Such practices may result in facilitation payments and, therefore, the CAE should discuss the associated risks with legal counsel, the board or audit committee, and senior management.

Government Relations

Risk Area Overview

In certain countries, significant interactions with government agencies may pose higher risk or compliance costs.

Red Flags

- Frequent government permit granting.
- Close personal relationships between employees and government personnel.
- A historical record of government fines or penalties.
- Use of agents or third parties to develop business relationships in foreign countries.
- Inappropriate payments to government agencies.
- Events sponsored for public servants including travel, expense reimbursement, or entertainment (taking advantage of the function directly or indirectly).
- High level of political contributions.
- Use of middlemen or consultants to facilitate fast track processing with government agencies or to get business.
- Offers of gifts or favors to government employees and officials.

Internal Audit Activities

- Review payments made to government agencies.
- Review use of third parties for such payments.
- Validate original receipts and related amounts for government payments.
- Review high-risk activities such as customs clearance and granting of permits.

Appendix 1: Comparison of Legislation in Select Countries

Following is a summary comparison of legislation in select countries (as of December 2012).

PROVISIONS	UNITED KINGDOM (BRIBERY ACT)	UNITED STATES (FCPA)	AUSTRALIA (BRIBERY OF FOREIGN OFFICIALS/SE- CRET COMMISSION)	PEOPLE'S REPUBLIC OF CHINA (PRC)
<i>Bribery of foreign public officials</i>	√	√	√	√
<i>Private-to-private bribery</i>	√		√	√
<i>Receipt of bribe</i>	√			√
<i>Intent</i>	Intent is required for section 1 and 2 offenses. No "corrupt" or "improper" intent is required for the FPB offense.	√	√	√
<i>Facilitation payments allowed</i>		√	√	
<i>Promotional expenses allowed</i>	√	√	√	√
<i>Extraterritorial application</i>	√			√
<i>Third parties</i>	√	√	√	√
<i>Failure to keep accurate books and records</i>	Covered by other legislation.	√	√	√
<i>Criminal penalties</i>	√	√	√	√
<i>Perceived level of enforcement</i>	Uncertain, as Act is new	High and growing	High and growing	High and growing

√ indicates section applies

Appendix 2: Internal Controls: Update Based on COSO Elements

COSO-recommended examples of anti-bribery and anti-corruption controls include:

- Corporate ethics and anti-corruption and anti-bribery policies.
- Provisions for compliance with anti-bribery regulations included in contracts with third parties.
- Anti-fraud and anti-corruption training provided to employees.
- A whistleblower program.
- Requiring employees to record events where they had contact with government officials, political parties/officials, or political candidates and their families.
- Enforcement of delegation-of-authority limits.
- Procurement policies and procedures and periodic compliance reviews.
- Political contributions approved by the board of directors.
- User access and segregation of incompatible duties controls.

Appendix 3: Sample Audit Procedures

1. Discuss whether the audit should be conducted under attorney-client privilege with the legal department.
2. Through inquiry with the board of directors and executive management, obtain an understanding of those groups' role in anti-bribery and anti-corruption

matters and their awareness of related policies and procedures and internal audit's role therein.

3. Evaluate the control environment/entity-level controls established by management.
4. Through inquiry with management, obtain an understanding of:
 - Anti-bribery and anti-corruption policies and procedures.
 - Third-party due diligence process.
 - Third-party agreement approval process.
 - End-to-end expense processing for check/wire/EFT, petty cash, employee payroll, and employee expense reimbursement.
 - Gift policies and procedures review process.
 - Meals and entertainment policies and procedures review process.
 - Related roles and responsibilities, segregation of duties, documentation requirements, predetermined thresholds, and delegation of authority.
 - Donation policies and procedures review process.
 - Process for review of payment facilitation policies and procedures.
5. On a sample basis, test policies and procedures over the items stated in item 4 above and verify that:
 - Policies and procedures were documented appropriately.
 - Policies and procedures were approved by appropriate management.
 - Policies and procedures were communicated to staff.
 - Policies and procedures are in compliance with FCPA regulations.
6. Review and test the following, as applicable:

- Tone at the top/Governance structure
 - › Leadership and support of the board, the CEO, and senior executives.
 - › Consistent communication, support, and enforcement of program to establish credibility.
 - › Anti-bribery and anti-corruption program with an organizational structure and formal decision-making processes.
 - › Whistleblower hotlines, employee help lines, and topical guidance to support employees in challenging situations.
 - › Regular exception reports to the CEO and the board.
 - Risk assessment
 - › Use cross-functional teams (e.g., business unit, finance, internal audit, compliance, legal) to establish credibility and consistency.
 - › Identify risk factors, schemes, and scenarios at a business-process level.
 - › Assess the likelihood and impact of risks.
 - › Tailor assessment to local incentives, pressures, opportunities, and attitudes.
 - › Evaluate and prioritize key risks.
 - Program design and control activities
 - › Focus on design and implementation of controls for key risks identified in the risk assessment.
 - › Typical policies and controls to consider:
 - Facilitation payments.
 - Gifts, hospitality, and entertainment.
 - Use of agents and other intermediaries.
 - Political and charitable contributions.
 - Acquisition due diligence.
 - Joint ventures or similar relationships.
 - Recordkeeping requirements.
-
- Investigation and sanction procedures.
 - Use of third parties and related controls.
 - Training programs for employees and vendors.
- › Ensure controls contemplate risks of override, circumvention, and collusion.
 - › Tailor controls to local environment and business models.
- Monitoring
 - › Design monitoring and auditing procedures around risk factors and indicators.
 - › Periodically evaluate program effectiveness by performing internal audits.
 - › Survey employees' understanding of the program.
 - › Constantly incorporate monitoring results into the program design.
 - Response and remediation
 - › Establish formal process for initiating, tracking, investigating, resolving, and documenting allegations.
 - › Identify and remedy control weaknesses that led to corrupt activities.
 - › Consistently enforce sanctions across organizational units and levels.
 - › Monitor communications regarding anti-bribery and anti-corruption compliance received by the board of directors and executive management.
7. Based on additional information gained, determine whether any additional test procedures should be designed and performed. If an investigation is required, seek guidance from a specialist.

Appendix 4: References

Following are references that would be useful to internal auditors in understanding the bribery and corruption scenario and building an appropriate strategy.

- Transparency International
- The Organisation for Economic Co-operation and Development (OECD) and OECD's Anti-bribery Convention (1999)
- United Nations Convention against Corruption
- United Nations Declaration against Corruption and Bribery in International Commercial Transactions
- The African Union Convention on Preventing and Combating Corruption
- The King Code of Governance for South Africa
- The U.S. Federal Sentencing Guidelines
- A Resource Guide to the U.S. Foreign Corrupt Practices Act (by the Criminal Division of the U.S. Department of Justice and the Enforcement Division of the U.S. Securities and Exchange Commission)
- The IIA's Audit Executive Center 2010 Knowledge Briefing, Internal Auditing and the Foreign Corrupt Practices Act
- The Chartered Institute of Internal Auditors' Professional Guidance for Internal Auditors on the U.K. Bribery Act 2010
- Transparency International's 2010 U.K. Bribery Act Adequate Procedure (guidance on good practice procedures for corporate anti-bribery programs)
- IIA Practice Guide, Evaluating Ethics-related Programs and Activities
- IIA Practice Guide, Coordinating Risk Management and Assurance
- The IIA's Global Technology Audit Guide (GTAG®) 16: Data Analysis Technologies

The authors consulted *Fraud and Corruption — Prevention and Detection*, by Nigel Iyer and Martin Samociuk, when writing parts of this practice guide.

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