

The 11th International Congress on Internal Control, Internal Audit, Fraud and Anti-Corruption Issues

“Understanding and Preventing Corruption: Risk, Prevention and Reporting”

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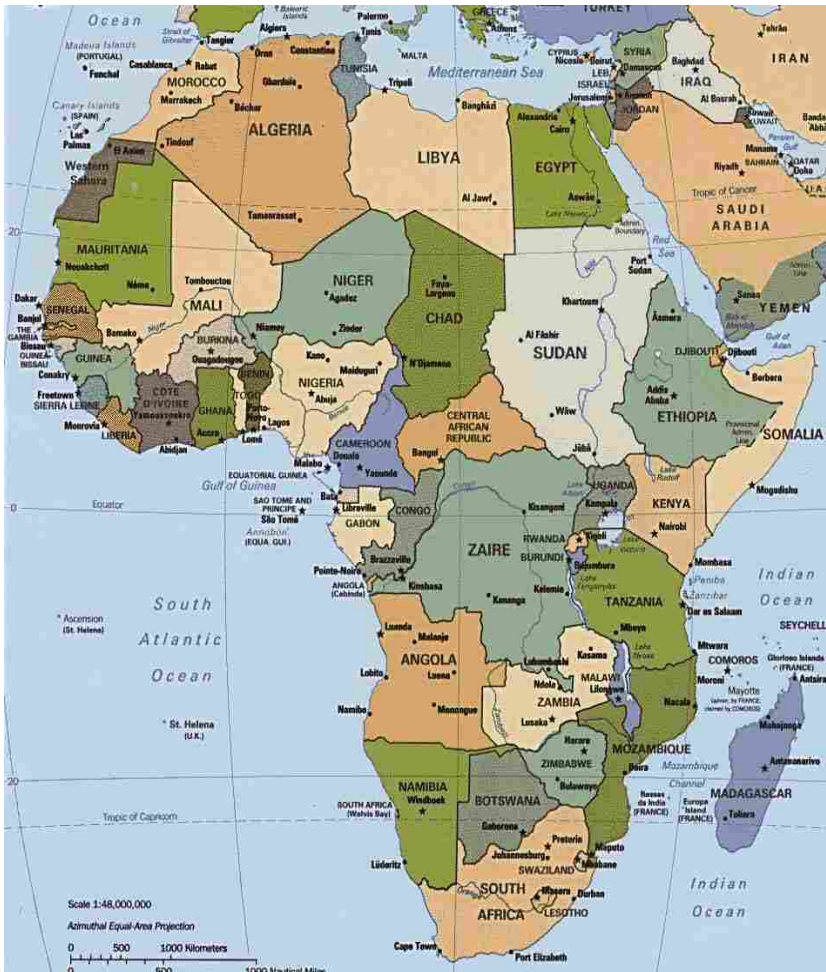
Agenda

Understanding Corruption

- 1 Introduction
- 2 Definition and International Initiatives
- 3 Differential Association Theory - Rationalization - The Myth of Amoral Business
- 4 The Slippery Slope
- 5 The Anti-Corruption Compliance Program
- 6 Financial Institution case
- 7 Reporting



Corruption





Definition



If only corruption were this obvious...

International Bribery and Corruption Initiatives

- ▶ The Organisation for Economic Cooperation and Development Convention on Combating Bribery of Foreign Officials
- ▶ The Inter-American Convention against Corruption of the Organisation of American States
- ▶ The United Nations Convention against Corruption
- ▶ Efforts in Africa, Asia and Europe – African Union Convention on Preventing and Combating Corruption
- ▶ UK Bribery Act 2010

UK Bribery Act 2010

Four major offences:

- ▶ The general offence of offering, promising, or giving a bribe.
- ▶ The general offence of requesting or agreeing to received a bribe.
- ▶ A separate offence of bribery of a foreign public official
- ▶ A corporate offence for failing to prevent bribery

Differential Association Theory

One of the most influential theories of fraud and corruption presented by the American sociologist Edwin Sutherland, published in *“White Collar Crime”* (1949/1983):

“...criminal behaviour is learned in association with those who define such criminal behaviour favourably and in isolation from those who define it unfavourably, and ... a person in an appropriate situation engages in such criminal behaviour if, and only if, the weight of the favourable definitions exceeds the weight of the unfavourable definitions”.

Differential Association Theory

The same fraudulent behaviour spreads rapidly within an organisation or group

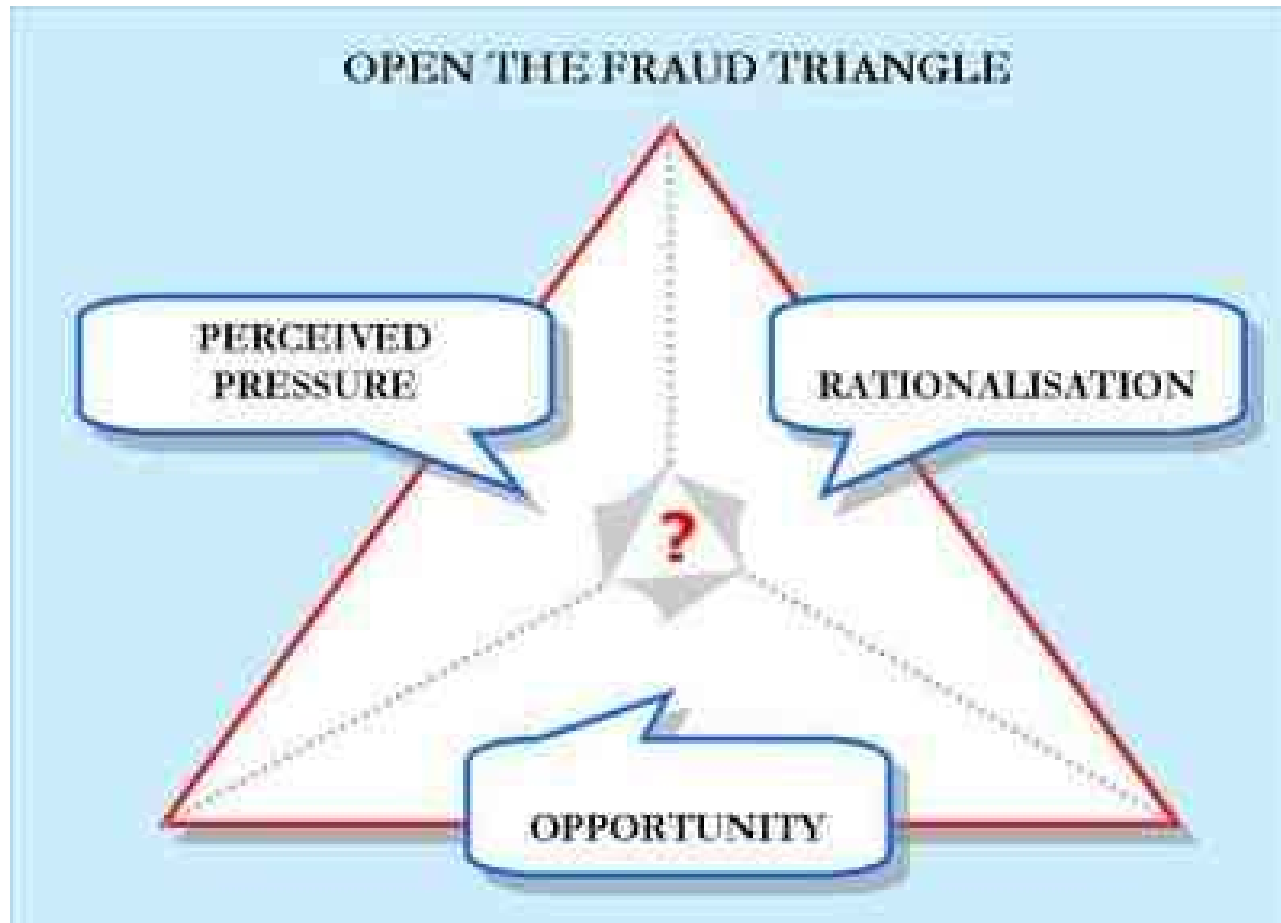
- ▶ A culture where senior managers have claimed for BIG private purchases on their travelling expenses.
- ▶ Several members of the management have their own companies (offshore and difficult to trace) which are invoicing certain suppliers.
- ▶ People who speak up get fired and sometimes offered money to shut up.
- ▶ Management have secret ownership in suppliers and distributors.

Differential Association Theory

The relevance of an organisational perspective on white-collar crime is also supported by the observation that the same kind of criminality can persist in a company after the original perpetrator has been removed or brought to justice.

It often takes a deeper cut in the organisation pyramid and a deliberate change in culture over time to make it finally disappear.

The Fraud Triangle



The Fraud Diamond

Incentive

Opportunity

Rationalization

Capability



Rationalisation

“Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non sharable, are aware that this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation, verbalisation which enables them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property”.

(Donald Cressey, 1953/1973)

Rationalisation

Some examples of common rationalisations:

- ▶ Everyone is doing it – *We are all guilty*
- ▶ It's only fair
- ▶ I've no choice – *Detached*
- ▶ It's just a loan – *Denial*
- ▶ No one is hurt
- ▶ They deserve it
- ▶ It's not a crime
- ▶ They don't mind
- ▶ It's for a good cause – *Devoid*

Rationalisation

An investigation in 2009 by *The Daily Telegraph* (UK) into the expenses of British Members of Parliament (MPs) blossomed into what Prime Minister, at the time, Gordon Brown called ‘The biggest Parliamentary scandal in two centuries’.

MPs had been abusing expense privileges from flat screen televisions to shipments of horse manure. MPs also refurbished homes at taxpayer expense, sometimes more than one home.

Parliamentarians defended themselves claiming they were just following the rules; they only claimed what they were entitled to.

The Myth of Amoral Business

Business is concerned with a highly pragmatic search for profits and individual careers, and that moral concern is and should be left out of the reflection around practical business problems.

The myth does not explicitly say that business is immoral, rather that business leaders sometimes act without concern for moral aspects, thus creating scandals along the way.

Why spend time and effort on being successful if the appearance of success suffices?



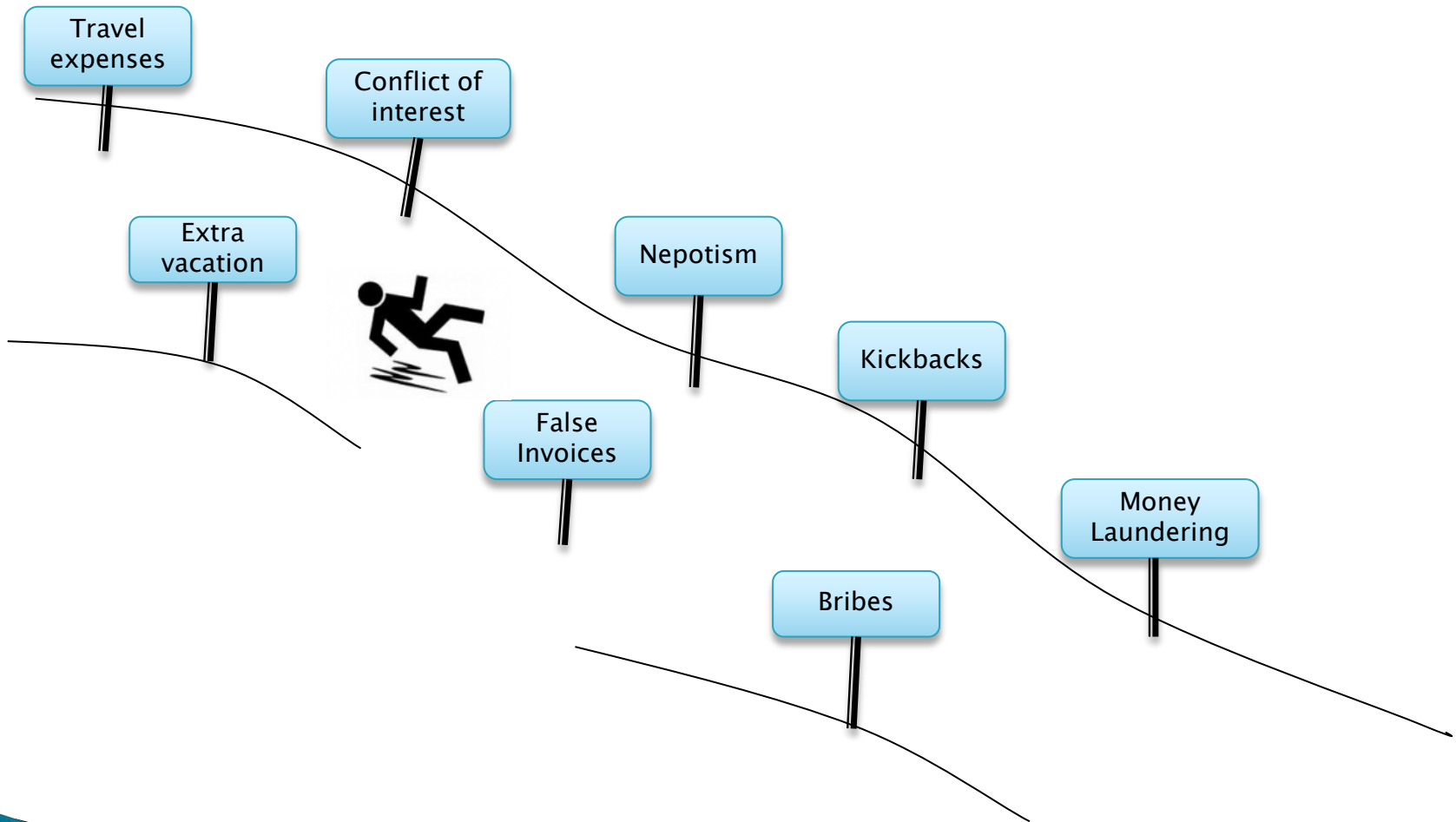


CAUTION



SLIPPERY
SLOPE

The slippery slope



Anti-Corruption Compliance Program

- ▶ Internal Control-Integrated Framework – Issued by the Committee of Sponsoring Organisations of the Treadway Commission in 1992.
- ▶ The US Federal Sentencing Guidelines for Organisations.
- ▶ Good Practice Guidance on Internal Controls, Ethics and Compliance (OECD), 2010.
- ▶ The Bribery Act Adequate Procedures Guidance, issued by the UK Ministry of Justice, 2011.

Anti-Corruption Compliance Program

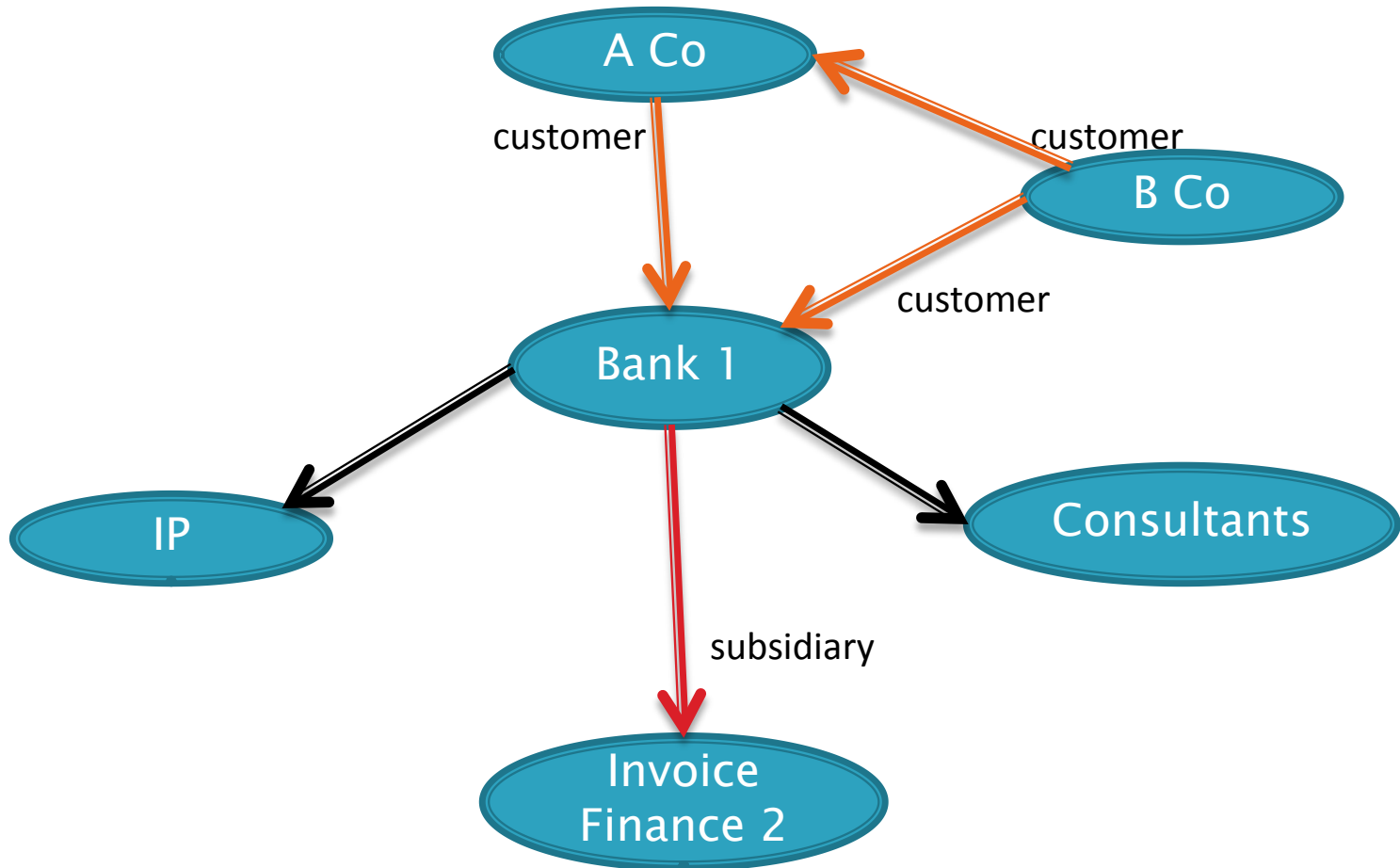


- Prevention Policies
- Communication and Training
- Internal Controls

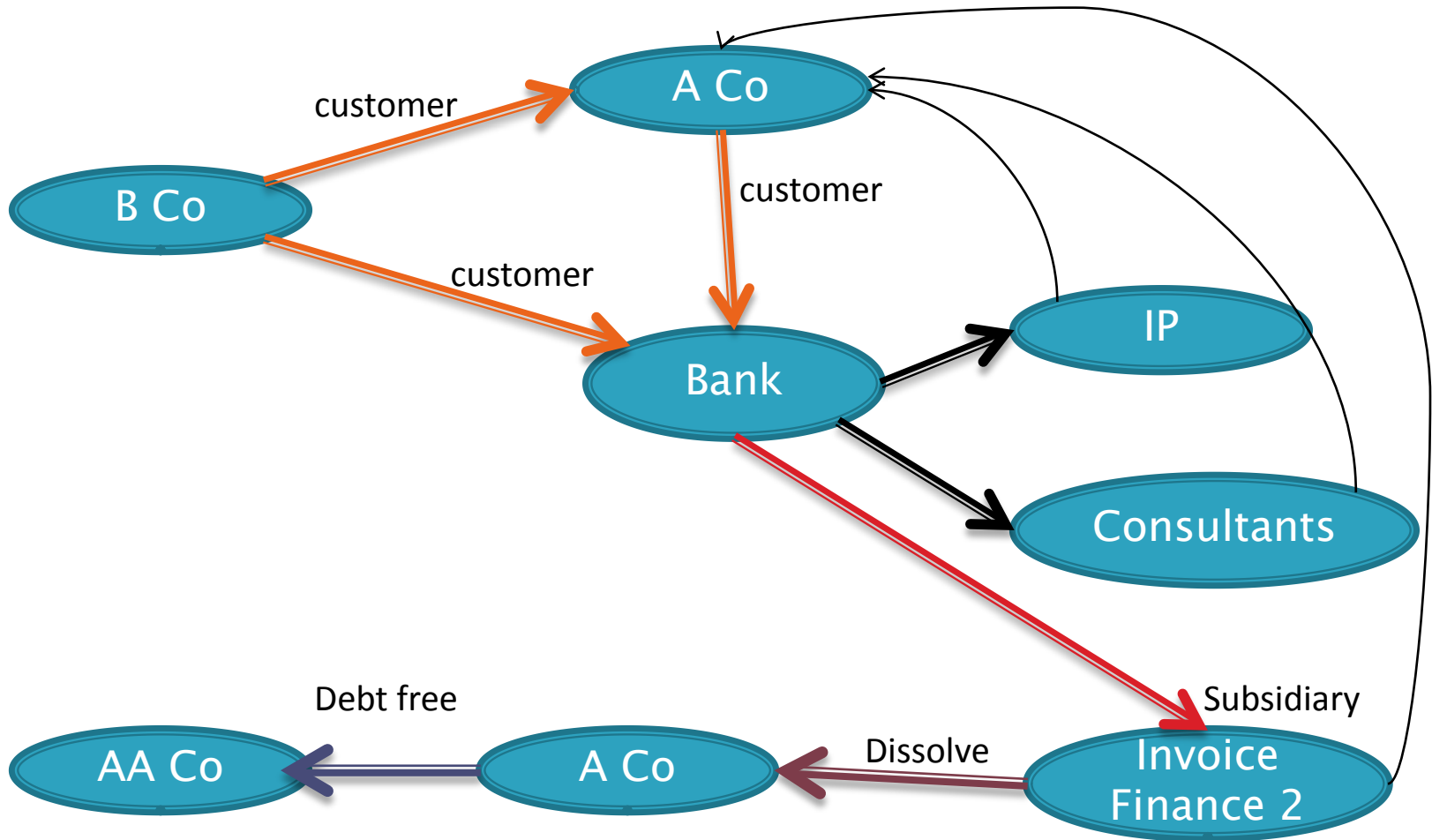
- Risk Assessment
- Monitoring
- Due Diligence

- Investigations

Financial Institution case



Financial Institution case



Hesitation to report

- ▶ The Prisoner's Dilemma
- ▶ The Bystander's Dilemma
- ▶ Group Pressure
- ▶ Fear
- ▶ Hesitation to prosecute

Thank you!

