

II. Risk Assessment: Part Two



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OPENING QUOTE:

“Organizations make money by taking risk and lose money by not effectively managing risk.”

- Anon.



Identifying risks of corruption

- Variety of **legal, commercial, operational** and **reputational** risks
- Due to way they **do businesses, locations** of operations, **industry** and **business partners**

Identifying risks of corruption

- Utilize variety of **internal** and **external** sources to identify **corruption-related risks**
- **Legal requirements** and **other measures** major **source of information**
- Fully acquainted with the **national laws** and **regulations**

Identifying risks of corruption

- **Legal requirements** and other **regulatory measures** indicate which types of **transactions** and **operations** involve risks of corruption
- Operations that require **critical licences** but face high level of **administrative bureaucracy** entail possibilities for corruption (*e.g. use of **facilitation payments***)



Identifying risks of corruption

- Legal requirements and other regulatory measures show where legal **grey areas** exist and where companies take **proactive stance** to avoid **ambiguous practices**

Identifying risks of corruption

- **Consultations with internal employees and external stakeholders** - *trade unions and business partners*
- **Employees** potentially **exposed** to corruption provide **useful information** to **identify** and **mitigate** risks



Identifying risks of corruption

- **Brainstorming** with different employees help in thinking “**out-of-the-box**”
- Information on **previous corruption cases** provide valuable information on **occurrences, circumstances** and **opportunities** for **prevention**



Identifying risks of corruption

- **Learn from peers and business partners**
- Hire **external consultants** to conduct risk assessment
 - identify risks **undetected by internal assessments**



Assessing risks of corruption



- **Qualitative** and/or **quantitative** terms
- **Quantification** of inherent risks **more challenging** in practice
- Facilitate **communication** of results

Assessing risks of corruption

- **Inherent risk exposure** defined through **combination** of:
 - *Impact of occurrence, and*
 - *Probability of occurrence*

Assessing risks of corruption

- **Impact of occurrence** relate to estimation of all negative **legal, commercial and operational, and reputational** consequences
- Include **direct** monetary and non-monetary consequences (*legal fine, debarment from market and/or negative press*)
- **Indirect costs - legal support fees or management time spent**

Assessing risks of corruption

- **Probability of occurrence** relate to likelihood that **corruption-related risk** will actually occur in foreseeable timeframe (e.g. in next 12-24 months)

Assessing risks of corruption

- **High levels of risks** mean direct and indirect consequences of corruption **very likely**
- **Quantitative determination** of inherent risk exposure calculated by **combining** numeric values for **impact of occurrence** and **probability of occurrence**

Assessing risks of corruption

- **Identified risks** with high likelihood of occurrence and high degree of impact **prioritized**
- **Visualize** overall risk exposure in “**Risk Heat Map**”
- **Understand** and **communicate** risks

Mitigating risks of corruption

- Determine best **course of action** to *handle* and *ideally minimize risks*
- **Reduce risks** through variety of *mitigation activities*
first option



Mitigating risks of corruption

- Mitigation activities form **part of** elements of anti-corruption ethics and compliance programme
- Not **additional activities** on top of or outside existing programme

Mitigating risks of corruption

- Mitigation activities **tailored measures** to decrease **probability of occurrence** and/or impact of corruption risks:
 - ✓ *Increased **managerial oversight** (e.g. four-eyes principle for approvals) for hiring of external agents*
 - ✓ ***Tailored training** for transportation managers facing **extortion requests** from **public customs officials***

Mitigating risks of corruption

- ✓ Intensified engagement of **middle management**
- ✓ **Automated internal controls** to analyze payment streams for long-term, complex contracts

Mitigating risks of corruption

- ✓ Increased **due diligence** on key suppliers or major investments
- ✓ Engagement in **collective action initiatives** (*e.g. industry peer groups*)

UNCAC

- Recognize importance of **preventive** measures for private sector
- Article 12: States parties to — where appropriate — provide **effective, proportionate** and **dissuasive** civil, administrative or criminal penalties for failure to comply with such measures

Mitigating risks of corruption

- Inherent risk of corruption may not be **reduced to zero**
- **Residual risk** may remain
- Identifying residual risks help company's oversight to assess where **remaining risk exposure** still exists
- **“Four-eyes” principle:** *requirement at least **two people** approve decision*

Mitigating risks of corruption

- Where mitigation activities cannot reduce inherent risk **below company's risk tolerance**
- **Additional activities** need to be considered
- Companies avoid risks by **changing** or **abstaining** from **business operations** deemed to **involve corruption**



Mitigating risks of corruption

- Company **avoid risks** by not conducting **individual transactions and projects**
- **Not entering** into **high-risk market** or by **abstaining** from **engagement of external agents**

Mitigating risks of corruption

- Companies **transfer risks** by **shifting** responsibility of managing or executing particular measures to **another party**
- **Avoid risk** on **insufficient due diligence** on suppliers to dedicated **external party** service provider



Outcomes of risk assessment

- **Prioritized risks** and determined **mitigation strategies**
- **Documented** to enhance **quality of evaluation**
- Provide **basis** for **future assessments**

Challenges and opportunities for SMEs

- **SMEs** face similar **negative consequences** to large companies
- More **vulnerable** to corruption
- **Extortion requests** from business partners of public officials

Challenges and opportunities for SMEs

- **Identify** relevant risks and **ensure** anti-corruption programme **address risks**
- Fewer human and financial **resources** to assess risks
- Fewer **number of employees** and **lower level of complexity**
- **Identification of risks** through **direct inquiries** easier than in large companies

Challenges and opportunities for SMEs

- Utilize **publicly available** tools, guides and supportive information to conduct **own risk assessment**
- **Collaborate** with other SMEs or with chambers of commerce, business associations and trade unions
- Accumulate **information** on related corruption risks and **identify** mitigation options

Public reporting on risk assessment

- Companies of all sizes **publicly report on anti-corruption efforts**
- International **good practice standards** - United Nations Global Compact — Transparency International “Reporting Guidance on 10th Principle Against Corruption” — assist companies to report on **risk assessment activities**

Public reporting on risk assessment

- Describe **risk assessment procedures** (*e.g. how often it is carried out, who is in charge, which parts of company covered, how results dealt with*)
- Describe **business units** and **subsidiaries** for which **risk assessment** undertaken

Public reporting on risk assessment

- Companies provide **qualitative** and **quantitative** information
- Highlight **practical actions** undertaken or **outcomes achieved**

Organizations with
strong risk culture are
not risk averse.

