

II. Risk Assessment



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II. Risk Assessment: Part One

UNITED
AGAINST
CORRUPTION



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Risk comes from not knowing what
you're doing.

— *Warren Buffett* —

AZ QUOTES



ASSESSMENT OF CORRUPTION RISKS



- **Preventing and fighting corruption effectively and proportionately**
- **Understanding risks faced**
- Foundation for **implementing and maintaining** anti-corruption programme



ASSESSMENT OF CORRUPTION RISKS



- **Identification and prioritization of risks**
- **Differ among companies according to size, structure, geographical operations or business model**
- **Depend on companies' internal operations - procurement, sales and marketing**



ANTI-CORRUPTION PROGRAMME



- No **“one-size-fits-all”**
- **Adapted to specific requirements of individual companies**
- **Risk-based approach** major underlying principle
- Corruption-related **risk areas** for companies
- Risks **identified** and **mitigated**



Responsibilities and processes



- Risks **perceived** as **negative**
- Companies prefer to **abstain** from formal risk assessment to prevent **negative perceptions** or **speculations**



Responsibilities and processes

- No company **immune** to risks of corruption
- Risks negative if **neglected** and cause **unexpected consequences**
- **Pro-active** position towards risks involves **identification, assessment and mitigation** with **tailored** policies and procedures



Responsibilities and processes



- Before conducting **risk assessment**
- *Companies **define** operational roles and responsibilities, operational processes and oversight for activities*



Operational roles and responsibility



- **Qualified personnel** appointed and empowered to manage and execute **risk assessment**
- In **large** and **decentralized** companies, employees from **headquarters** and **local entities** assigned
- Engage employees potentially exposed to risks (e.g. *local sales representatives, procurement officers*)



Operational PROCESSES

- Clearly **defined** and **documented**



Areas



- **Timing of risk assessment**
- **Frequency of risk assessment**
- **Sources of risk identification**
- **Collection of data**



Areas



- **Procedures for risk assessment** (*e.g. quantification of risks*);
- **Persons included in risk assessment** (*e.g. internal employees, business partners, external stakeholders*);
- **Identification, compilation and aggregation of information**



Conducting risk assessment



- Most **effective** and **efficient** when **embedded** in **existing processes** (*financial forecasting or other risk assessment exercises within company, e.g. health and safety*)
- Recognize **relation** between **compliance** and **operational activities**



OVERSIGHT



- **Risk assessment** carried out as defined in **operational processes**
- Initial definition of **overall risk tolerance**
- Review of **outcomes** and **evaluation** of **mitigation strategies**



Corruption-related risk areas for companies



- Companies and employees facing variety of **negative consequences** for failing to **prevent corruption**:
- **Legal risks** relating to **legal sanctions** for corruption (*e.g. criminal fines, compensatory damages, imprisonment*)



Corruption-related risk areas for companies



- **Commercial and operational risks** relating to negative impacts on day-to-day activities - buying, producing, selling, hiring, investing (*e.g. debarment from public tenders, unfavourable financing conditions*)



Corruption-related risk areas for companies

- **Reputational risks** relating to standing of company and employees among peers, family, friends and general public
- **Negative reputation** trigger additional consequences - **commercial sanctions** (*e.g. decrease sales or lower attractiveness for investments*)



Corruption-related risk areas for companies



- **Such consequences** not only limited to **location** of company
- **National legislation**, particularly relating to **bribery** of foreign
- Public officials may have **extra-territorial** reach



Corruption-related risk areas for companies



- Company's **location**
- **Modus operandi**
- Interaction with **business partners**
- *Influence **scope** and **impact** of negative consequences*



Tailoring Anti-Corruption Programmes



- Take into account **industries** and **geographical locations**
- Some industries and geographical areas exposed to **higher levels of corruption**



Tailoring Anti-Corruption Programmes



- Industry and **geographical location** influence market dynamics
- Affect **competitiveness, norms** and **customs** as well as expectations from **stakeholders** - *suppliers, customers and public officials*



Tailoring Anti-Corruption Programmes



- **Business model** affect **risk** of corruption
- **Business partners** such as *sales agents or subcontractors* pose increased risk of corruption due to lower **degrees of control**



Tailoring Anti-Corruption Programmes



- **Other factors:**
 - *High volatility of personnel*
 - *Dependency on critical licences*
 - *Complex contracts*
 - *Short-term financial focus*




Tailoring Anti-Corruption Programmes



- **Organizational structure** impact level of corruption risks
- ***Decentralized structure have lower control over operations of branches and subsidiaries***



Tailoring Anti-Corruption Programmes



- **Organizational culture** affect likelihood of corruption
- Determined by prevailing **social norms** and expressed in **informal rules of conduct**
- Strong **competitiveness**, low levels of **trust** and **low integrity** more corruption prone than companies where **honesty, participation** and **ethical values** strongly encouraged



Risk Assessment

Everything in life has some risk. What you have to actually learn to do is how to navigate it.