Ethics & compliance in high-risk countries

Setting up the framework and investigations capability

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Introduction

Who am I?

- I am a Finance professional, started in external and internal audit in The Netherlands and then continued my career with Mobil, ExxonMobil and Shell.
- Lived & worked in Qatar, Nigeria, Canada, Kazakhstan, Dubai, Iraq and of course The Netherlands
- Roles that I had include Business Process Analyst, Audit Manager, SAP project manager, Hydrocarbon Accounting Manager, Compliance Investigation Manager and Ethics & Compliance Manager
- Currently I live with my family in Dubai and commute on a weekly basis to Iraq where I work as an E&C Manager in a joint venture (oil & gas).
Overview of the session

- High-Risk countries
- Cultural differences
- Ethics & Compliance (E&C) Framework (7 pillars)
- Setting up the framework
- Setting up for investigations
- Required competencies
- Summary
- Questions & Answers

High-risk countries

The Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption, according to experts and business people.

From www.transparency.org/cpi2019
High-risk countries

Kazakhstan
- A huge country the size of Western Europe
- Kazakhstan has vast mineral resources and enormous economic potential
- Recent leadership change after long-standing Kazakhstan’s founder, Nursultan Nazarbayev, stepped down in March 2019

Iraq
- Rebuilding after number of wars
- Economy dominated by the oil sector
- Recent protests for increase in standards of living, employment and against corruption

Source: Asperian Global (GlobeSmartProfile)
## Cultural Differences

<table>
<thead>
<tr>
<th>Cultural element</th>
<th>Netherlands</th>
<th>Kazakhstan/Iraq</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent/Interdependent</td>
<td>Individual identity is important and people prefer taking action on their own</td>
<td>Group harmony and cooperation. Feel obligation and loyalty to ascribed groups</td>
</tr>
<tr>
<td>Egalitarianism/Status</td>
<td>Challenging views of supervisor. Flexible about roles. Treating everyone the same</td>
<td>Not to challenge those above them. Deferential to superiors. Power and authority for a few members of a group</td>
</tr>
<tr>
<td>Risk/Certainty</td>
<td>Rapid decision-making and quick results. Importance on flexibility and initiative. Speed over thoroughness</td>
<td>Spend time on background research. Proper procedures before starting a project. Value thoroughness over speed</td>
</tr>
<tr>
<td>Direct/Indirect</td>
<td>Come to the point quickly. Asking questions. Be comfortable disagreeing with others. Give negative feedback directly</td>
<td>Context before coming to the point. Avoid asking questions publicly. Express disagreement in subtle ways. Give negative feedback indirectly</td>
</tr>
<tr>
<td>Task/Relationship</td>
<td>Reaching goals and objectives on schedule. Prioritize accomplishing tasks over maintaining relationships.</td>
<td>Building relationships key to achieving good results. Maintaining relationships over accomplishing tasks on time.</td>
</tr>
</tbody>
</table>

Source: Asperian Global (GlobeSmartProfile)

### What does it mean for E&C?

- Building relationships is important
  - Discussing plans with individual managers 1-2-1 is important before presenting in committee
  - Gain trust by involvement and showing you are listening
- Excluding key managers from E&C activities is seen as lack of loyalty, while you may think you are “moving ahead without the need to seek help”
- Verbal communication is more important than e-mails
  - E-learning often not effective or not attended at all
  - Speak to managers before f-2-f training so that attendees will attend
- Use a train the trainer approach, gain support from local leaders and staff
- Investigating and applying consequence management is a big thing given the group culture
### E&C framework (7 pillars)

#### Standards and Procedures
- Adopt a Code of Conduct
- Distribute Code to all employees, officers, and directors
- Require Code certification
- Require new employee acknowledgement of the Code

#### Response and Prevention
- Implement a written investigation process
- Review investigation results with management
- Improve control framework following investigation results

#### Discipline for Non-Compliance
- Impose sanctions consistently when Code violation occur
- Include ethics as an evaluation factor in employee performance reviews
- Factor ethics in salary increases and bonus payments

#### Compliance Program Administration
- Establish E&C function
- Adequate resourcing in place to implement and maintain compliance program
- Governance structure exercise reasonable oversight
- Implement Compliance Committee

#### Communication and Training
- Regularly communicate to employees regarding compliance and ethics
- Include compliance and ethics components in your employee orientation
- Provide compliance and ethics training

#### Auditing and Monitoring
- Monitor new laws, regulations, and rules, and implement changes as needed
- Perform Risk Assessment to adjust compliance program
- Analyze hotline reporting to identify emerging issues by geography, business unit, or risk

#### Internal Reporting Systems
- Provide a 24/7, toll-free Compliance & Ethics Hotline
- Reporting system in place to report on effectiveness of the compliance program

### Setting up the Framework

#### Setting up the program
- Using the 7 pillars, the priorities were to:
  - Review the P&P in place and update where necessary
  - Set up a f2f training of critical roles
  - Set up a compliance committee
  - Implement or strengthen the (anonymous) compliance hotline
  - Investigation of complaints
- Define a roadmap that included E&C organization, key risks and focus area’s
- Discuss and agree place & size of E&C in the organization
Setting up the Framework

Developing the program

- Expand the E&C resource base to a realistic number
- Ensure continuation of the investigations and decide where this should be positioned in the organization (Audit, E&C, etc.)
- Identify key issues – for example conflict of interest
- Improve communication via an E&C topic in townhall sessions, e-mails, tv monitors and f2f training
- Developing train the trainer approach
- Specific program for Conflict of Interest carried by the HR department

Challenges

- Difference in country culture, company cultures of the different partners in the joint ventures
- Enforcement and consequence management
- Buy-in from local management
- Building investigation capability
- Language barrier

Key Success Factors

- Tone at the (very) top
- Proper resourcing of E&C
- Building investigations capability
Setting up for investigations

Key component of your compliance program is being able to investigate complaints that are coming in through your compliance hotline.

Complaints include:

- Conflict of Interest complaints
- Procurement fraud
  - Kickback schemes
  - Collaboration in the market
- Harassment

FIG. 69 What are the most common occupational fraud schemes in Eastern Europe and Western/Central Asia?

<table>
<thead>
<tr>
<th>Complaint</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>62%</td>
</tr>
<tr>
<td>Noncash</td>
<td>30%</td>
</tr>
<tr>
<td>Billing</td>
<td>15%</td>
</tr>
<tr>
<td>Expense Reimbursements</td>
<td>11%</td>
</tr>
<tr>
<td>Cash/Large</td>
<td>10%</td>
</tr>
<tr>
<td>Financial Statement Fraud</td>
<td>10%</td>
</tr>
<tr>
<td>Cash-on-hand</td>
<td>9%</td>
</tr>
<tr>
<td>Check and Payment Tampering</td>
<td>5%</td>
</tr>
<tr>
<td>Uprooting</td>
<td>4%</td>
</tr>
<tr>
<td>Suspicious Disbursements</td>
<td>4%</td>
</tr>
<tr>
<td>Payroll</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: ACFE (2018 Report to the Nations)

FIG. 70 What are the most common occupational fraud schemes in the Middle East and North Africa?

<table>
<thead>
<tr>
<th>Complaint</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption</td>
<td>49%</td>
</tr>
<tr>
<td>Cash-on-hand</td>
<td>23%</td>
</tr>
<tr>
<td>Noncash</td>
<td>19%</td>
</tr>
<tr>
<td>Cash/Large</td>
<td>15%</td>
</tr>
<tr>
<td>Billing</td>
<td>13%</td>
</tr>
<tr>
<td>Skimming</td>
<td>13%</td>
</tr>
<tr>
<td>Expense Reimbursements</td>
<td>9%</td>
</tr>
<tr>
<td>Check and Payment Tampering</td>
<td>8%</td>
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Source: ACFE (2018 Report to the Nations)

How your complaints develop
Setting up for investigations

How do you promote a "speak up" culture?

- Training
- Promoting, communication
- Ensuring anonymous complaints can be made
- Ensuring there is someone that can be trusted
- Effective investigations - something is done with your complaints

Resources needed

- As your complaints are increasing more investigation resource needs to be recruited
- Some considerations
  - Can you use local resources or not?
  - What background do they need to have?
    - Audit, law enforcement background, C&P or HR
  - Language skills
  - Forensic IT capabilities
  - Will you pursue court cases or not?
  - Security considerations
  - Support from external service providers
### Setting up for investigations

#### Resources needed

- Where is your investigations function placed?
  - Audit
  - Legal
  - Within independent E&C

Source: ACFE (In-House Fraud Investigation Teams: 2019 Benchmarking Report)

### Setting up for investigations

#### Resources needed

- How many investigators do you need?
  - Quite often there is only one hired to do the investigations complemented with external service provider for forensic support
  - The ACFE has found that on average however 2.21 investigators are hired per 1,000 employees
  - It depends a bit on the size of the organization, where small organizations (< 100 employees) have 6 investigators, while large companies (> 10,000 employees) have teams of 50 investigators on average

Source: ACFE (In-House Fraud Investigation Teams: 2019 Benchmarking Report)
Required competencies

Different competencies for Ethics & Compliance versus Compliance Investigations

- Ethics & Compliance
  - Strong sense of ethics ("wanting to do the right thing")
  - Does require more extrovert mindset – connecting to people, engagement with management, etc.
  - Need to be creative in reaching staff, in delivering the message
  - Need to be able to pick the area’s where most risk is, such a Conflict of Interest as topic or Procurement department
  - Need to be accessible to people so that issues are brought forward
  - Need to have an understanding of the cultural difference and the patience that people are coming from different background
  - Professional background can be various, often Legal, Finance or Audit

- Compliance Investigations
  - Strong sense of ethics ("wanting to do the right thing")
  - Ability to “keep digging”
  - Good understanding of procurement processes and other financial transactions
  - IT savvy
  - Ability to interview people without being intimidating
  - Ability to work structured in logging complaints, review, investigate and report
  - Willingness to see investigations through to the end including supporting Legal/HR with consequence management
  - Professional background most suitable is Law Enforcement or Audit
Summary

- In building your E&C and investigations capability following the seven pillars of the E&C framework is a good starting point also for high-risk environments. Training and f2f engagement, support from the top and investigation and consequence management should be top priorities.
- Cultural differences both on country as on company level are important to understand and will impact the way you communicate. It does not change the basics you compliance program however.
- Ensure sufficient focus on investigations. Starting is one thing, but continuous focus is important and requires continuing building investigation capability.
- There is difference in competence of E&C professionals versus Investigation professionals. Where E&C professionals should be having a more extravert, more visible approach, investigators should not be too visible and that requires a more introvert type of personality.