



Risks of Corruption in decision making

Barry Davidow

Director

Fraud Prevention & Governance P/L



Understanding

- AFZ
- Language



Corruption

- Most definitions of corruption focus on the *abuse of office for personal gain*



Examples

- issue of loans or debt forgiveness
- the payment of insurance claims
- the level of discounts
- procurement decisions
- granting of licences or permits

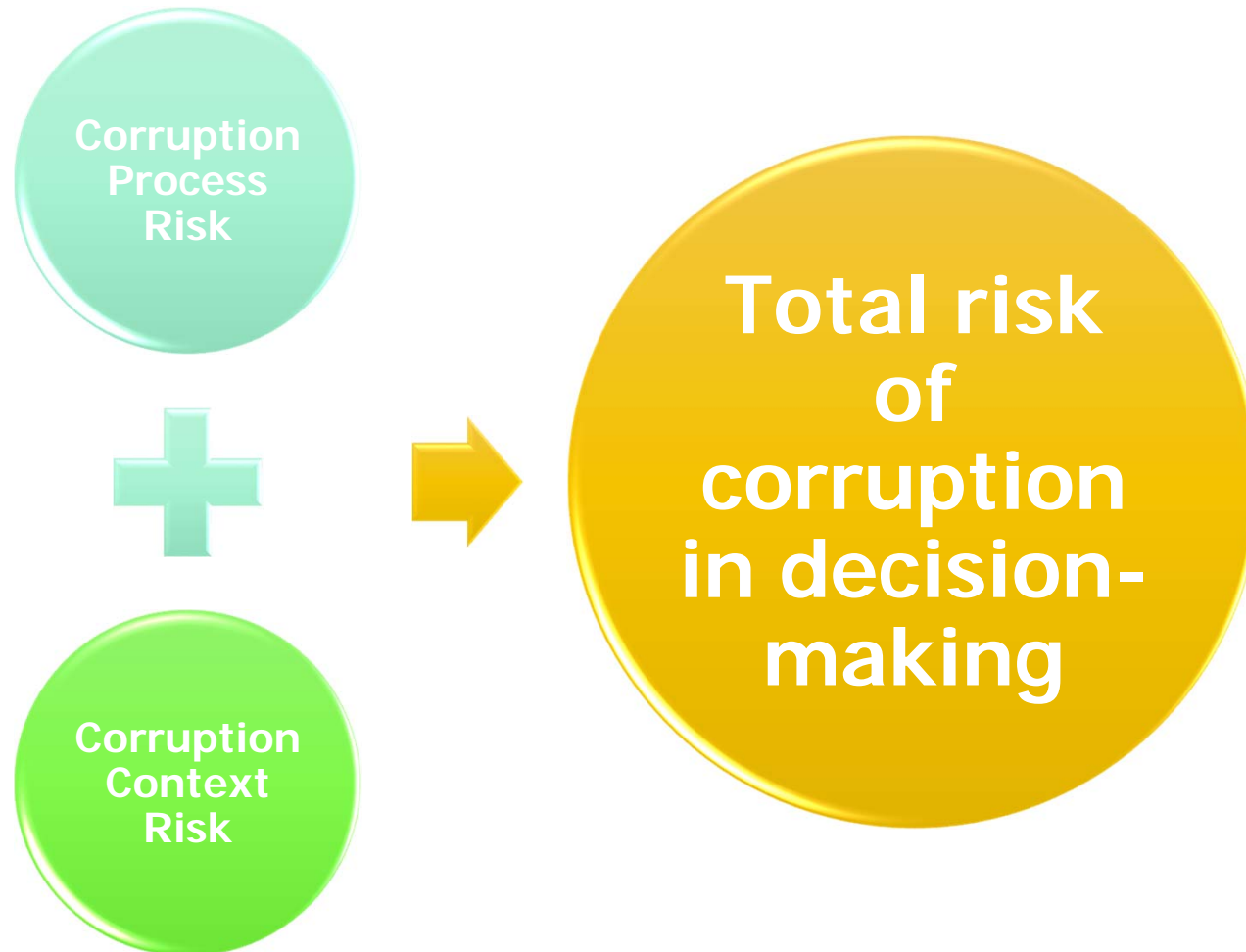


United Nations

- “Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish.”



Conceptual Equation





Total Corruption Risk

- Corruption Process Risk
- Corruption Context risk



Corruption Process Risk

- Preliminary activities
- Allocation
- Decision-making
- Activities after decision



Corruption Context Risk

- Decision-maker
- Decision matter
- Decision environment



Assurance

Controls over preliminary activities, allocation, the decision and post decision activities

Risks of (decision maker + decision matter + environment)



Corruption Process Risk

- Preliminary activities
- Allocation
- Decision-making
- Activities after decision



Preliminary Activities

- Registration of documents or items to be the subject of decision making
- preliminary decisions
- selection activities.



Preliminary Activities - Risks

- changing the timing of the decision - such as putting matters ahead of the queue



Preliminary activities - risks

- Advice, information, testing, inspections and anything that the decision-maker will consider as part of the decision making process.
- There should be controls to ensure that the inputs are accurate, complete, up to date, in accordance with the rules, from a trustworthy source and are reliable for the requirements of decision-making.



Allocation

- decision-makers only being able to deal with matters that are within their jurisdiction, delegations and knowledge.
- Random allocation
- No decision-maker shopping



Decision

- Transparency
- Including dealing visibly with potential impediments to impartial decision making
- Good documentation provided to entities that are the subject of decisions so that they understand the process



Decision

- Transparency
- Including a well-documented decision making process, including what is to be considered
- Appropriate documentation of the decision and the reasons for the decision



Decision

- Transparency
- Including explanation to subjects of the decision about what was decided, what was taken into account, what the appeals processes are, etc.



Activities after the decision

- Proper recording of the decision and thorough review and appeals processes



Activities after decision - risks

- Inadequate IT security
- overrides in IT systems whereby the decision is changed
- Items being removed, substituted or added in electronic or paper folders that change key aspects of the decision



Activities after decision - risks

- Notifications not being in accordance with the decision and the recording of the decision being different to the actual decision when it is entered into another system because of inadequate controls over interfaces



Activities after decision - controls

- Ensuring that the review is undertaken by impartial people, who are senior enough and have adequate time, skills and experience and access to legal or other experts.
- Risk based internal reviews within the entity and fair appeals processes both within and external to the entity



Corruption Process Risk

- Preliminary activities
- Allocation
- Decision-making
- Activities after decision



Corruption Context Risk

- Decision-maker
- Decision matter
- Decision environment



Decision maker risks

- the decision-maker having a history of corruption
- having conflicts of interest
- not having sufficient training and experience in decision making in this area



Decision maker risks

- not taking appropriate care in making the decision
- not having the psychological traits for making these decisions
- relying excessively or negligently on the inputs of others



Decision maker risks

- not having all of the information necessary to make a sound decision on this matter
- not being familiar with developments in the field
- having limited resources or time in which to consider the relevant factors



Decision maker risks

- Indications that the decision-maker is likely to rationalise corrupt conduct and/or be subject to financial, social or other pressures to become involved in corruption



Decision maker risks

- The risk is higher where the decision is made by only one person or where more than one person is involved, the others invariably follow the lead of one person



Decision matter risks

- The decision being unusual
 - Where it is of a type that is seldom undertaken by the entity or individual involved
 - Involves unusual factors or circumstances



Decision matter risks

- The entity affected by the decision may increase the risk
- The entity has a history of corruption
- Associates, agents or other parties are suspected of being involved in corrupt activities



Decision matter risks

- The entity has a great deal to lose or gain by the decision
- Key individuals in the entity or associated with it stand to gain or lose significantly because of the decision
- The entity is under severe pressure that will be significantly relieved by the decision favouring it



Decision matter risks

- Risks increase where this decision is a prerequisite to other important decisions by the decision making organisation or others



Decision matter risks

- How subjective the decision is
- The level of discretion
- Low levels of clarity and objectivity in the information to be used by the decision-maker



Decision environment

- Legislative, legal, structural and other aspects outside the decision-making organisation
- The level of perceived corruption and ethical cultures and sub-cultures in the country, state or city, the industry and among entities generally who are the subjects of the decisions



Decision environment

- Structural and governance arrangements within the decision-making organisation
- The ethical culture and sub-cultures within the decision-making organisation and especially the areas responsible for decision-making process



Decision environment

- The effectiveness of internal controls over the decision-making process
- Support processes, structures and cultures in the decision-making area for those reporting and resisting corrupt influences



Decision environment

- Pressures on individuals from outside the decision-making organisation to participate in corruption
- pressures on individuals from within the organisation to influence decision-making



Assurance

Controls over preliminary activities, allocation, the decision and post decision activities

Risks of (decision maker + decision matter + environment)