

# Combating bribery in the SME sector

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**ACCA (the Association of Chartered Certified Accountants) is the world's largest international accountancy body and our 162,000 members live and work in countries all over the world.**

### ACCA AND PUBLIC VALUE

Central to ACCA's work is the belief that the accountancy profession must demonstrate how it creates public value, which for ACCA means acting in the public interest, promoting ethical business and supporting economic growth. It also means training accountants who not only satisfy the needs of individual clients and employers through the quality of their work and technical expertise but also consider the wider impact of their activities on society as a whole, in line with ACCA's ethical code. A concern for public value underpins everything that we do, including the pursuit of our strategic objectives. We campaign for responsible business behaviour in all respects and have signed up to the UN's Global Compact. By virtue of this we undertake to make the Compact's ten principles, which include a commitment to working against corruption in all its forms, an integral part of our business strategy, day-to-day operations and organisational culture.

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#### The ACCA Global Forum for Business Law

The Forum brings together experts from the corporate sector, public practice and academia from around the world to debate trends and developments in business law. One of its areas of special focus is on how legal systems can achieve the right balance between encouraging entrepreneurial initiative and providing necessary protection for stakeholders and the public interest.

#### The ACCA Global Forum for SMEs

The Forum provides a unique platform for promoting the role of SMEs in the global economy. Representing over 15 countries and a wide range of professional backgrounds – from finance institutions, academics and professional advisers to entrepreneurs themselves – the Forum represents the sector's needs at a global level and facilitates the sharing of best practice.

Small and medium-sized enterprises (SMEs) make up the great majority of businesses in all countries, and employ the majority of the global workforce. Yet their significance to the health of the global business environment is often overlooked. This is as true with respect to the problems of bribery and corruption as it is for other aspects of business regulation.

This report sheds new light on how bribery and corruption affect the SME sector and argues that smaller businesses need to be encouraged and supported in their efforts to combat the threats posed.

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#### UK FINDINGS REPORT

A UK-focused report of this survey, *Combating Bribery in the SME Sector: The UK Findings*, is available from the ACCA website:

[www.accaglobal.com/content/dam/accaglobal/PDF-technical/small-business/tech-tp-cbissuk.pdf](http://www.accaglobal.com/content/dam/accaglobal/PDF-technical/small-business/tech-tp-cbissuk.pdf)

## Foreword from Professor Mark Pieth

Engaging in bribery increases business costs and uncertainty. Bribes never come with a guarantee and, once the cheque book is out, requests for bribes almost always grow. If caught, companies can face severe fines, their employees can face prison time and their share prices can plummet on news of a criminal investigation. These costs are unsustainable in a competitive global market. They are even harder to bear for small to medium-sized enterprises (SMEs).

SMEs take relatively bigger risks to enter new markets, have more to lose when competing for business, and almost always have fewer resources to cope with the complexities of anti-corruption laws.

To level the playing field for business, including for SMEs, the majority of the world's largest economies have joined the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Convention requires its 40 States Parties, which account for most of the world's cross-border business deals, to tackle the 'supply side' of bribery by criminalising the offering, promising and giving of bribes to foreign public officials.

For nearly 15 years, the OECD Working Group on Bribery has been monitoring implementation of the Convention. Through our country monitoring, we have found that one of the biggest challenges we face is reaching out to, and engaging with SMEs.

We have seen, and the ACCA SME survey confirms, that there is a dangerously low level of awareness among SMEs of both the risks of foreign bribery and domestic legislation making it a crime. We have also seen that SMEs are often not investing in implementing even the most basic internal controls, ethics and compliance measures to prevent bribery in their business dealings. This represents a significant gap in our overall effort to fight foreign bribery. SMEs make up the vast majority of employers in all Convention countries. They are increasingly doing business abroad and participating in the supply chains of larger companies.

How do we address this gap? The most effective way to engage SMEs in the fight against foreign bribery is to show

that bribery does not pay by actively enforcing our anti-bribery laws. To date, 306 companies and individuals have been subject to sanctions under criminal proceedings for foreign bribery since 1999. At least 83 of the individuals concerned were sentenced to prison. One company faced combined sanctions of €1.24bn for foreign bribery. Yet sanctions have only been handed down in 13 of the 40 Convention countries. More can be done.

We should try harder to address SMEs' fears that compliance programmes are unnecessary or too expensive. For advice, SMEs can turn to the OECD *Good Practice Guidance on Internal Controls, Ethics, and Compliance*, which offers a reference for elements that should make up an anti-corruption compliance framework, no matter what a company's size, industry or location. These elements include, for example, having a clear anti-bribery policy that is explicitly supported by senior management, putting in place a system of financial and accounting procedures, and providing channels for reporting suspicious acts and protections for those who report.

SMEs also need to know that they are not alone when deciding whether to pay a bribe to win a make-or-buy contract. Resources such as the ACCA network of accounting and auditing professionals, SME associations, chambers of commerce, private sector anti-corruption networks, and collective action initiatives are available to provide SMEs with the support, information and advice they need to make the right business choices.

In the pages that follow, the ACCA survey of SMEs will further show where we need to engage SMEs more closely. On behalf of the OECD Working Group on Bribery, we are grateful for the survey's suggestions for addressing SMEs' specific needs better. SMEs are an essential element in our fight against bribery and corruption. By working together, we have a better chance at winning this fight.

**Professor Mark Pieth,**  
**Chairman, OECD Working Group on Bribery in**  
**International Business Transactions**

# 1. Introduction

Bribery and corruption are not unique to our modern age and nor do they occur in only one kind of society, business sector or walk of life. The risk of bribery can arise whenever and wherever the human desire to secure a particular personal or collective outcome is so strong that the perpetrator is prepared to resort to underhand methods to achieve it.

Bribery and corruption in political life are popularly thought to be widespread, even if the perception may in many cases be worse than the reality. In some cases, unfortunately, corruption is serious and institutionalised, and bribery of public and private sector officials is in those cases considered to be part of the cultural landscape.

In the business world, bribery affects all societies and business sectors (though some more than others) and, in common with other forms of financial crime such as money laundering and fraud, is widely considered to have been exacerbated by the pressures caused by the global financial crisis.

The particular incidence and impact of bribery in the SME sector has, however, received relatively little attention. This is despite the fact that SMEs represent, collectively, a highly significant element of the global economy, making up around 99% of all businesses in all countries. The extent to which businesses in this sector are aware of bribery risks when going about their activities, and routinely take pre-emptive action to avoid being exposed to acts of bribery, all need to be understood if a more complete picture of the environment is to be drawn.

To address these questions, ACCA has carried out a new investigation into how SMEs see the issue. A survey of ACCA's global membership solicited the views and insights of those members who work either as business managers in SMEs or as providers of professional services to SMEs as accountants, auditors and business advisers.

Our analysis of their responses has identified ways in which even very small businesses can take reasonable and cost-effective measures to protect themselves against risk and, in the process, enhance their credibility with the larger entities with which they may do business, and whose internal control systems and high-level policies and practices may be more advanced and elaborate than their own.

The survey findings have confirmed ACCA's view that the business case for proactively combating bribery exists at the SME level just as much as at the large corporate and public body level. Furthermore, SMEs need targeted support to ensure that they can make their own valuable contribution to the global effort to tackle bribery in business.

## 2. The business impact of bribery

A culture of bribery – an environment where bribery is tolerated and accepted as an inevitable feature of the conduct of business – will always facilitate and perpetuate unfairness and inequalities, both of which tend to have wider social and economic consequences in the longer term. Where such a culture flourishes, businesses may consider that, if they wish to do business in that environment, they have no choice but to be prepared to pay bribes. The result will be the perpetuation of a dysfunctional culture, where inefficient business practices will be allowed to continue. Companies, institutions and governments may become reluctant to invest in that market or sector. Bribery is likely to have adverse consequences for all in society when funds intended to be used for public benefit are diverted into private pockets. Global Financial Integrity has estimated that illicit financial flows, including from bribery and corruption but also from theft and tax evasion, cost developing countries US\$1.26 trillion each year; an estimated €120bn is lost to corruption each year within the 27 member states of the EU alone (Malmström 2011).

When businesses cannot or will not compete with those paying bribes, their shareholders and employees will suffer too, because they will have forgone the income and profits that they otherwise might have earned. Where businesses choose not to conduct business in a particular country because of concerns about the risks of bribery and corruption, that country's economy will suffer, with direct consequences for its people and business sector.

Surveys suggest that the extent of bribery and corruption in the business sector continues to be widespread. The 2011 global anti-bribery and corruption survey carried out by KPMG found that 70% of respondents thought there were places in the world where business could not be done without engaging in bribery and corruption; among the minority who did not accept that proposition, 30% had still decided not to do business in a country owing to bribery and corruption concerns.

A survey published by Ernst & Young in 2013, which polled more than 3,000 corporate executives in 36 countries in Europe, the Middle East and Africa, found that 38% of respondents believed that companies in their countries were currently exaggerating their financial performance, in that sales or cost figures had been manipulated by these companies: this might involve reporting results early to meet financial targets, under-reporting of costs to meet budget targets and requiring customers to buy unnecessary stock to meet sales targets. Overall, 57% of respondents considered that corrupt practices were widespread in their countries and an average of 60% believed that their company's managers would come under increased pressure to perform over the next 12 months. Over two-thirds (68%) of survey respondents from Nigeria thought that reported corporate financial performance in that country is often exaggerated; the figures for Russia and India were 61% and 54% respectively. In that same survey, nearly half of respondents thought that resorting to bribery and corruption was acceptable as a means of surviving an economic downturn.

Some research evidence suggests that the incidence of bribery and corruption in the business sector has increased in recent years as a direct result of the global financial crisis of 2007–8 and the subsequent recessions. The logic behind this suggestion is two-fold: businesses encountering trading difficulties caused by or exacerbated by the economic situation may be tempted to resort to illicit methods to keep themselves afloat. Individual directors, managers and employees who are experiencing financial problems in their personal lives may seek to divert the property of their business for their own ends. Where bribery and other types of financial crime occur, accountants may be exposed to it – a summary of the responsibilities of accountants in this context is attached as an Appendix to this paper.

Whatever the direct cause of corrupt behaviour, and whatever the sector involved, the effect of bribery and corruption is to damage confidence in the integrity of the business sector and to harm the interests of those who are not party to the corrupt practices.

### 3. What is being done?

At both the national and international levels, the official message has never been clearer that bribery and corruption are unacceptable features of public and business life; an ethical approach to the conduct of business, at all levels and in all sectors and countries, should be seen as the norm to which all should aspire.

The OECD's *Convention on Combating the Bribery of Public Officials in International Business Transactions* sets out a framework that is intended to be adopted in all signatory countries to regulate and criminalise the practice of bribery in the course of business dealings with foreign governments.

There is also the UN Convention against Corruption, which is wider in scope than the OECD convention in that its measures are directed at both private and public sector business dealings. It identifies the need for all members of society to be involved in combating corruption, and calls on all countries to promote the involvement of civil society and to raise awareness of corruption and ways of tackling it.

Businesses that wish to engage with a number of elements of corporate social responsibility (CSR) practice can find a policy template in the *UN Global Compact* (2013). This sets out a number of principles that signatory companies are expected to integrate into their corporate strategies – including a commitment to tackling corruption.

Individual governments have also been taking action. The UK updated its long-standing laws on bribery in 2010 with a new Bribery Act. The revised law reforms the existing offences of bribing another person, accepting bribes and

bribing foreign public officials. It also introduces a new 'corporate' offence of failing to prevent acts of bribery being perpetrated by employees, agents or subsidiaries. This corporate offence applies to any business incorporated in the UK and to any foreign firm that carries on business in the UK. Its scope encompasses bribery activities conducted anywhere in the world.

This reform follows another significant change to UK law in 2006. The Companies Act was amended to require that all decisions made by company directors in the UK take into account a series of specified environmental factors, which include a requirement to consider 'the desirability of the company maintaining a reputation for high standards of business conduct'. This does not mean that all company decisions have to seek consciously to meet this test in every case. It means rather that, in the course of deciding what is in the best interests of their company, a board of directors is required to allow for the possible effect on those interests if the company acts (or does not act) in accordance with ethical business standards. Company directors who fail to pay any regard to this requirement could be judged to be in breach of their legal obligations.

The longest-standing and arguably the most effectively enforced anti-corruption statute is the US Foreign Corrupt Practices Act 1977 (FCPA). This act makes it unlawful for any American individual or business, and any foreign business that is listed in the US, to make a payment to a foreign official for the purposes of obtaining or retaining business. The FCPA imposes extensive accounting and internal control obligations on listed companies,

intended to help ensure that they do not make payments that would fall foul of the act. The criminal penalties meted out by the US authorities both for actual bribery activities and for non-compliance with the control requirements can be substantial, the highest recorded being the \$800m fine imposed on the German company Siemens AG in 2008.

The stringent provisions of both the US and UK legislation have significantly increased the level of risk that businesses run, especially when dealing with particular sectors or markets where the incidence of bribery is considered to be high. Both measures put the onus on individual businesses to establish internal controls to minimise the risk of falling foul of the legislation. The increasing consciousness among corporate bodies of the importance of business reputation has also served to increase their interest in controlling their exposure to bribery and corruption risks.

Supplementing the legal measures that are specifically aimed at bribery, the recommendations on combating money laundering issued by the intergovernmental Financial Action Task Force (FATF) require all countries to put in place laws to criminalise the practice of dealing with the proceeds of bribery and corruption (FATF 2012). As part of this regime, banks, accountants, solicitors and other 'regulated persons' should be required by national law to communicate to the relevant authorities any suspicions they have that their clients (or any other people they encounter in their professional work) have committed any such offence. The result of this framework of controls is that businesses of all sizes should be aware that whenever they deal in the

proceeds of crime (whether those proceeds relate to bribery and corruption or other crimes of equivalent magnitude) their actions are liable to be detected and reported.

Private sector initiatives to combat bribery and corruption include measures such as the model anti-corruption contractual clause published by the International Chambers of Commerce (2012). The same organisation has produced a set of self-regulatory guidelines designed to influence corporate behaviour in this area. Transparency International has also issued a set of voluntary guidelines for companies to follow in the form of its *Business Principles* (Transparency International 2009).

## 4. How do bribery and corruption affect SMEs?

Much attention has been devoted in recent years to how public bodies and large corporations should be expected to address the challenges posed by bribery and corruption. This is wholly understandable. Public bodies are by definition expected to act in the public interest and in all societies will be responsible for administering very material levels of funds. Public procurement is thought to account for around 15% of global GDP, hence it is essential that the process of awarding contracts for publicly financed projects is conducted fairly and transparently. The scale and reach of large corporations means that they have enormous power to influence economic activity in all the markets in which they operate.

In contrast, comparatively little attention has been given to the role of SMEs in this area. Yet SMEs make up the great majority of all the business entities in all countries, and will form part of the supply chains of many large corporates and public bodies. ACCA estimates that, across all the countries where reasonably good data is available, SMEs account for 52% of private sector value added and 67% of employment, accounting for a large majority of the business population (89–99.9%) (ACCA 2010). Despite their

enormous economic contribution and the likelihood that SMEs will experience the impact of bribery and corruption more acutely than larger companies, surprisingly little research and activity has been focused on the sector. Efforts at understanding how bribery and corruption affect business, and the development of tools to combat the threat they pose, remain mostly focused on the public sector and large businesses. High-profile corporate scandals have captured the attention of the media and wider public, further contributing to this trend.

With generally fewer resources at their disposal than larger businesses, SMEs are particularly vulnerable to bribery, and proportionately more of them may be affected. Previous evidence has shown that 70% of SMEs in transition economies perceive corruption to be an impediment to their business. Other evidence shows that where SMEs do pay bribes to public officials, they are likely to pay out much higher percentages of their annual revenues in these and other unofficial payments than large companies do (UNIDO and UNODC 2007).

ACCA research in 2007 also revealed a fundamental uncertainty about what

bribery and corruption actually amount to in practice. Over two-thirds of survey participants (69%) believed that SMEs were likely to come across incidences of bribery and corruption in the course of their business dealings, yet fewer than half thought that SMEs understood the law in this area. Six years on, evidence of how SMEs are affected by bribery and corruption remains scarce, and the sector remains largely overlooked when it comes to anti-bribery and corruption initiatives.

Given that SMEs have fewer resources, less bargaining power and greater reliance on external support than large companies, the case for paying more attention to their needs is strong. While ACCA's research provides an important source of evidence with international relevance, there is a significant lack of such evidence for how bribery and corruption issues affect SMEs. Recent deregulatory developments are raising important questions as to the treatment of SMEs in anti-bribery and corruption legislation, and whether they warrant different treatment from large companies. There is therefore a genuine need for a more evidence-based approach to policy development and law-making in relation to the SME sector.



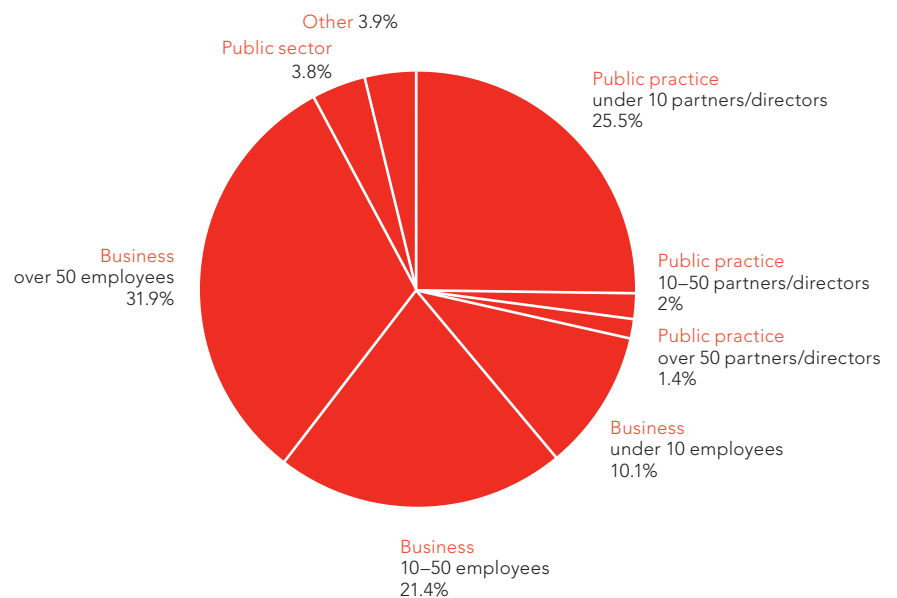
## 5. ACCA's 2013 research

In order to help increase understanding of the impact of bribery and corruption on SMEs, in July 2013 ACCA conducted an online global survey of members. Respondents included ACCA members working within SMEs as accountants or general managers (63% of respondents) and those in public practice providing professional services to SMEs (29%). A small number of members working in the public sector (4%) also took part. The main findings of the survey are set out over the following pages, together with a selection of direct comments in italics, submitted by respondents.

Responses were received from 915 ACCA members (Figure 5.1), in all regions of the world.

For the purposes of this research, bribery and corruption are treated as a single issue, in line with the typical approach taken by leading organisations. Given that one objective of the survey was to gauge understanding of the term 'bribery and corruption', respondents were not given any formal definition in order to avoid influencing their perceptions in any way.

Figure 5.1: The types of organisation in which respondents worked



## 6. Global research findings

### SMES' EXPOSURE TO BRIBERY AND CORRUPTION RISK

SMEs encounter bribery and corruption risks just as large corporates do. Only 17% of global survey respondents think that SMEs are not generally likely to come across any risk of bribery and corruption in the course of their business dealings. The majority (62%) believe that they are (Figure 6.1).

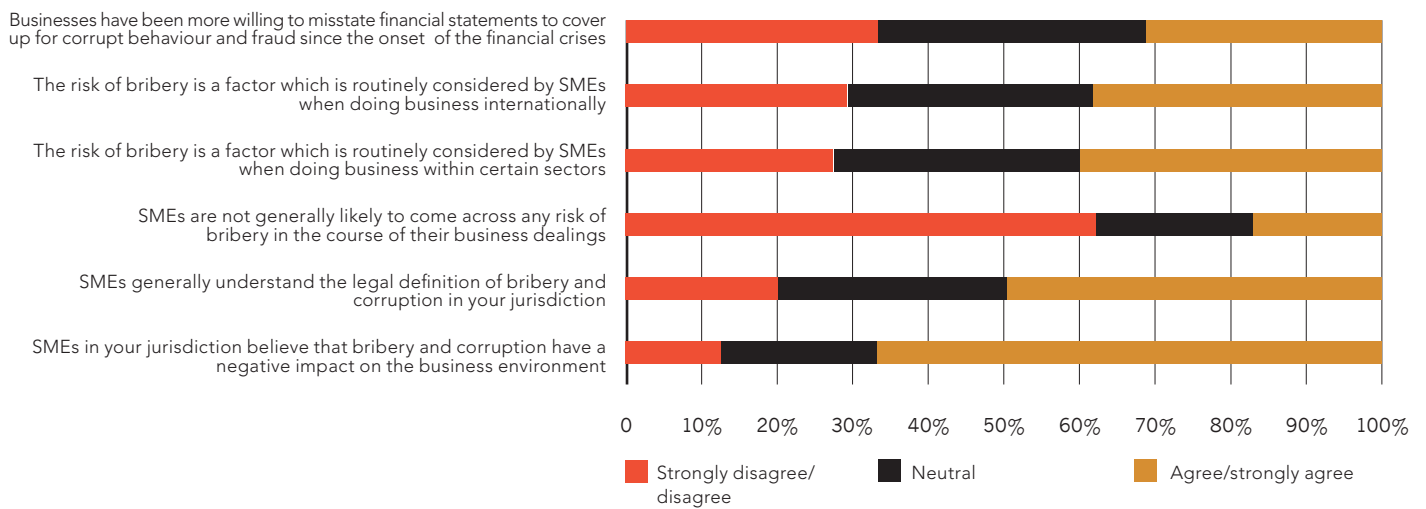
This may in part be due to the continuing impact of the global financial crisis in many regions of the world.

Many individuals and businesses have been under increased pressure to report positive results despite the difficult economic climate, increasing the potential for fraud and corruption. Almost one-third (31%) of global survey respondents think businesses have been more willing to mis-state financial statements to cover up for corrupt behaviour and fraud since the onset of the global financial crisis.

A concern arising from the survey findings is that many SMEs appear not to be taking appropriate steps to

mitigate their exposure to bribery and corruption risks. Survey respondents were asked for their views on whether SMEs routinely consider the risk of bribery when doing business, and fewer than half think this is the case. Only 45% of survey respondents believe SMEs consider bribery risk when contemplating doing business within certain sectors, and only 38% think they do so when considering doing business internationally (Figure 6.1).

Figure 6.1: Respondents' perceptions of SMEs' approach to bribery and corruption issues



*'There is need to create awareness of the dangers of corruption to business development.'*

If SMEs are exposed to potential bribery and corruption, where does that exposure arise? As illustrated in Figure 6.2, over half (53%) of survey respondents believe that the potential for bribery and corruption exists in commercial dealings of various kinds. Only 18% believe this assertion to be unlikely.

Given a number of specific situations, survey respondents anticipate that bribery and corruption will become

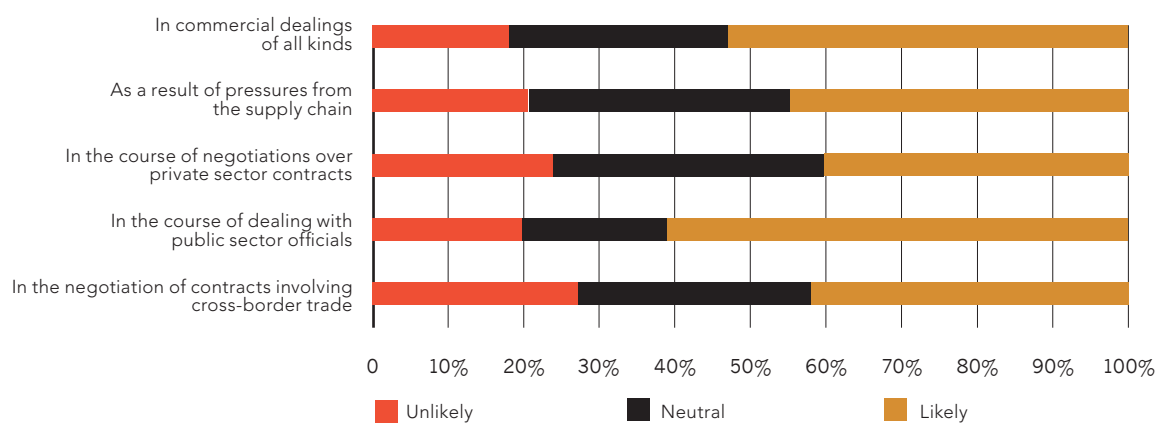
most evident in the course of SMEs' dealings with public officials: 61% think this to be likely, three times as many as those (20%) who believe it unlikely.

Substantial minorities of survey participants also think it likely that bribery and corruption would become evident to SMEs as a result of pressures from the supply chain (45%), in the negotiation of contracts involving cross-border trade in goods and services (42%), and in the course of negotiations over private sector contracts (40%).

*'As global trade becomes more common the influence of corruption grows.'*

*'Desperate SMEs may not see any other way than to resort to some sort of bribery or corruption in order to sustain their businesses.'*

**Figure 6.2: Respondents' perceptions of where they would expect to encounter bribery and corruption**



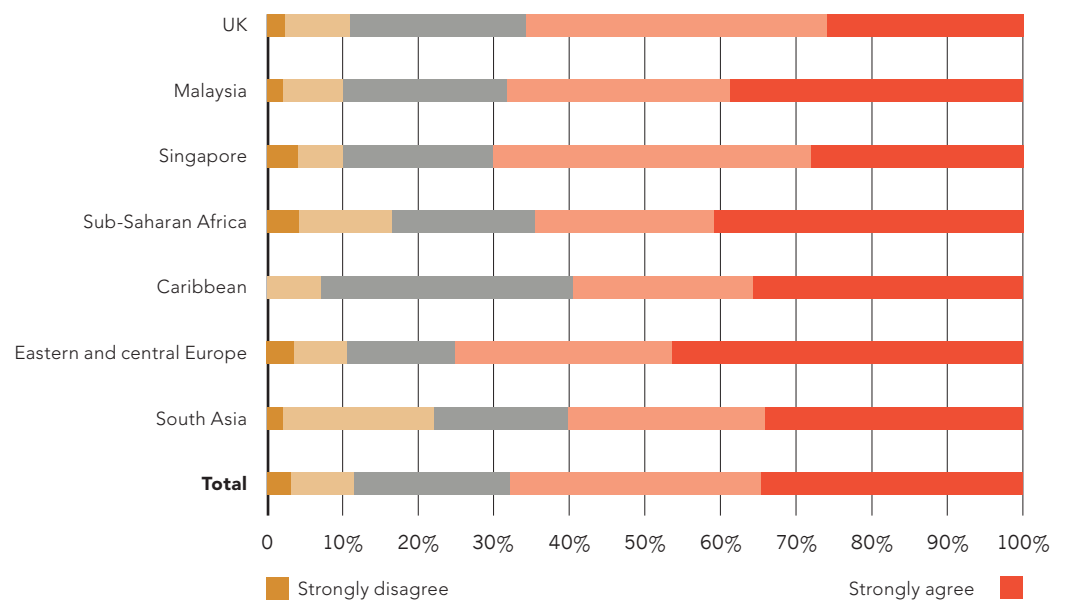
Do survey respondents ultimately think SMEs suffer as a result of bribery and corruption? As shown in Figure 6.1, two-thirds agree that SMEs in their jurisdiction believe bribery and corruption have a negative impact on the business environment. This view appears particularly prevalent in eastern and central Europe (see Figure 6.3), where 75% of survey respondents agree that SMEs believe bribery and corruption have a negative impact, and in Singapore (where 70% express this view).

Only 13% of respondents globally disagree with the idea that SMEs in their jurisdiction believe bribery and corruption have a negative impact on the business environment. Respondents in south Asia (22%) are most likely to dispute that bribery and corruption have a negative impact.

'Bribery and corruption stifles growth of SMEs as income or profits are wiped through kickbacks given in order to secure contracts.'

'The impact of bribery [and] corruption is devastating for the economy and more so for SME[s]. Most SME[s] are very small and more exposed to these practices.'

**Figure 6.3: Do bribery and corruption have a negative impact on the business environment?**



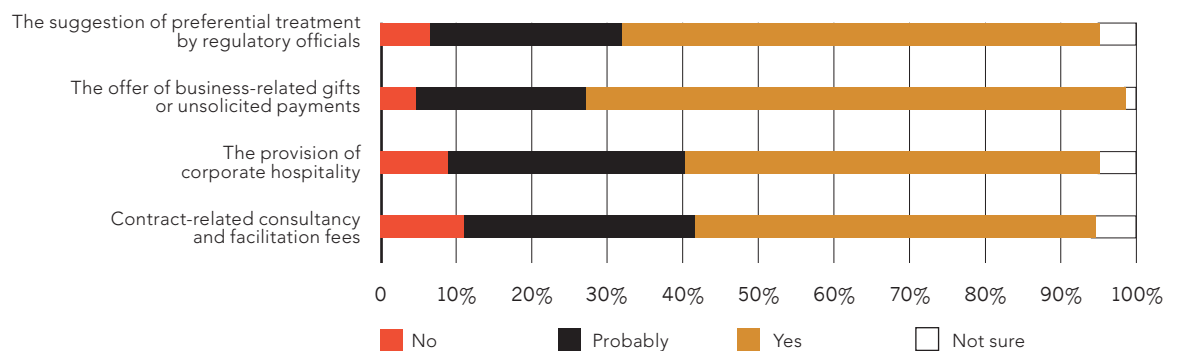
## UNDERSTANDING OF BRIBERY AND CORRUPTION ISSUES

SMEs may be exposed to bribery and corruption risks, but can they spot them? Survey respondents were asked whether they would expect SMEs to be able to differentiate between bribery and corruption and certain other specified scenarios. Respondents have greatest confidence in SMEs' ability in relation to the offer of business-related gifts or unsolicited payments – 71%

believing SMEs could differentiate between these and bribery and corruption. Similarly, 63% of respondents globally expect SMEs to be able to differentiate between bribery and corruption and the suggestion of preferential treatment by regulatory officials. Smaller majorities also expect SMEs to be able to differentiate bribery and corruption from the provision of corporate hospitality (55%) and from contract-related consultancy and facilitation fees (53%).

Nonetheless, around 1 in 10 respondents do not think SMEs could differentiate between bribery/corruption and contract-related consultancy and facilitation fees (11%) and the provision of corporate hospitality (9%). Many others are uncertain, 31% only able to say that SMEs could 'probably' distinguish between bribery/corruption and both those transactions.

Figure 6.4: Respondents' ability to differentiate between bribery and corruption and the following

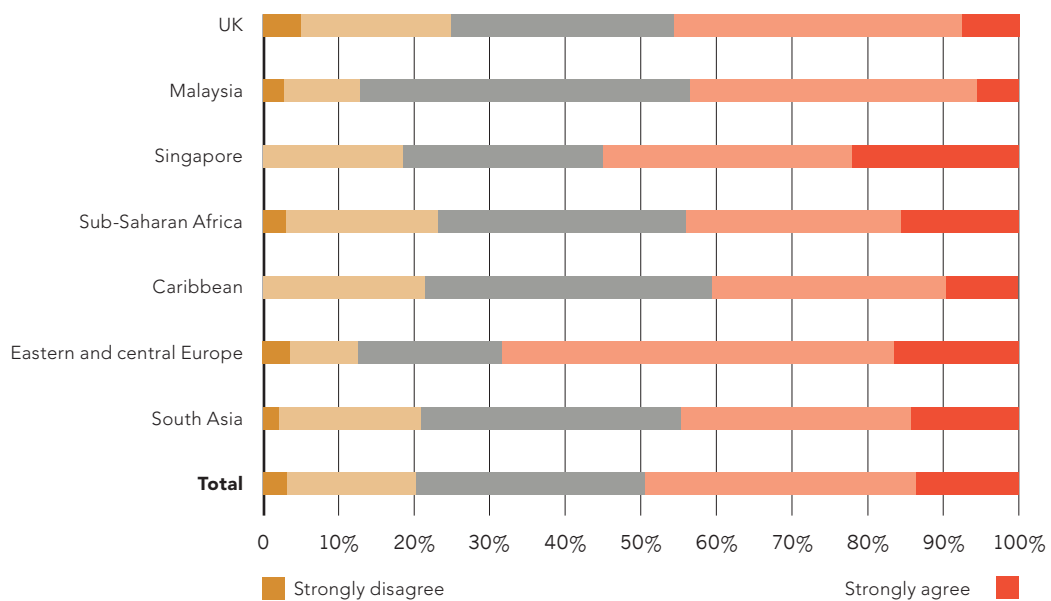


There appear to be good grounds for such uncertainty: as shown in Figure 6.1, fewer than half of global survey respondents (49%) agree or strongly agree that SMEs generally understand the legal definitions of bribery and corruption in their jurisdiction. One in five (20%) do not think they understand them.

When looking at results across the regions (Figure 6.5), respondents in

Eastern and central Europe have most confidence in SMEs' understanding of the legal definitions: 68% think they generally do so. Over half of respondents (55%) in Singapore also have confidence in SMEs' understanding. The greatest scepticism arises in the UK, where almost a quarter (24%) of survey respondents do not think that SMEs generally understand the legal definitions of bribery and corruption.

**Figure 6.5: Do SMEs understand the legal definitions of bribery and corruption?**

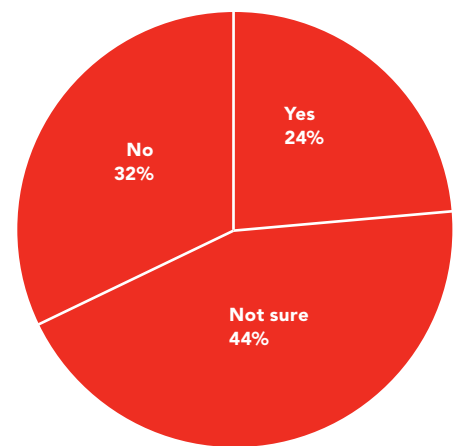


## LEGAL FRAMEWORKS

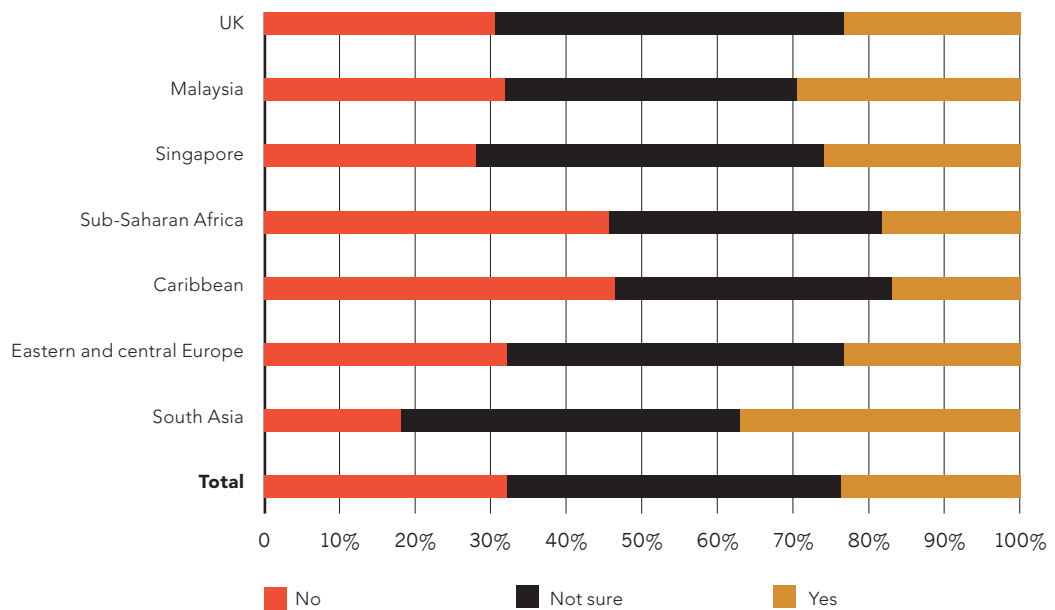
There is considerable uncertainty about how much impact the risk of sanctions under anti-bribery laws has on SMEs' willingness to do business within some sectors or jurisdictions (Figure 6.6). A large proportion of survey respondents (44%) are unsure whether the risk of sanctions deters SMEs. Almost one-quarter (24%) of respondents, however, think that the risk of sanctions does deter SMEs from doing business, while almost one-third (32%) think it does not.

From a regional perspective (Figure 6.7), respondents in south Asia are most likely to think that the risk of sanctions under bribery laws deters SMEs from doing business, with 37% holding this opinion. In contrast, survey respondents in the Caribbean and in sub-Saharan Africa are least likely to think SMEs are deterred: 46% in both locations disagree with the suggestion that the risk of sanctions deters SMEs from doing business.

**Figure 6.6: Respondents' perceptions of the deterrence effect of bribery and corruption sanctions**



**Figure 6.7: Do sanctions deter bribery and corruption?**

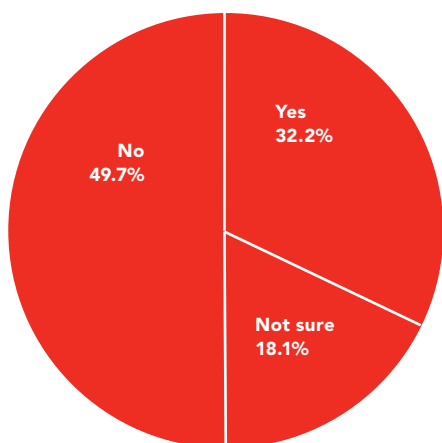


If SMEs do not necessarily fully understand anti-bribery and corruption laws and may be deterred from doing business as a result, should they perhaps operate under a modified regime with less strict compliance obligations than those that apply to large companies and public bodies? Survey respondents were asked for their views (Figure 6.8). Half of all respondents do not think anti-bribery laws should incorporate a modified regime for SMEs. Almost one-third (32%) nonetheless believe that they should, while 18% are unsure.

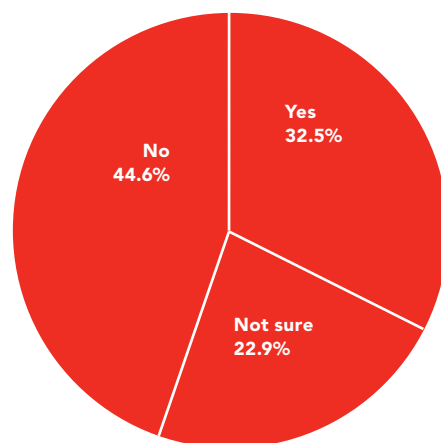
From a regional perspective, the strongest support for a modified regime for SMEs comes from south Asia, where over half (55%) of respondents think that anti-bribery laws should incorporate a modified regime for SMEs. This clearly reflects respondents' concerns about the impact of sanctions on SMEs: as already noted, those in south Asia are most likely to think that the risk of sanctions under bribery laws deters SMEs from doing business with some sectors or jurisdictions. The strongest opposition to any modified regime for SMEs

appears to come from sub-Saharan Africa (where 61% of respondents oppose the idea), Eastern and central Europe (where 59% oppose it) and the Caribbean (57% oppose). Again, these findings are consistent with those reported above, whereby survey respondents in the Caribbean and in sub-Saharan Africa are least likely to think SMEs are deterred from doing business by the risk of sanctions under anti-bribery laws.

**Figure 6.8: Respondents' support for modified anti-bribery and corruption legislation for SMEs**



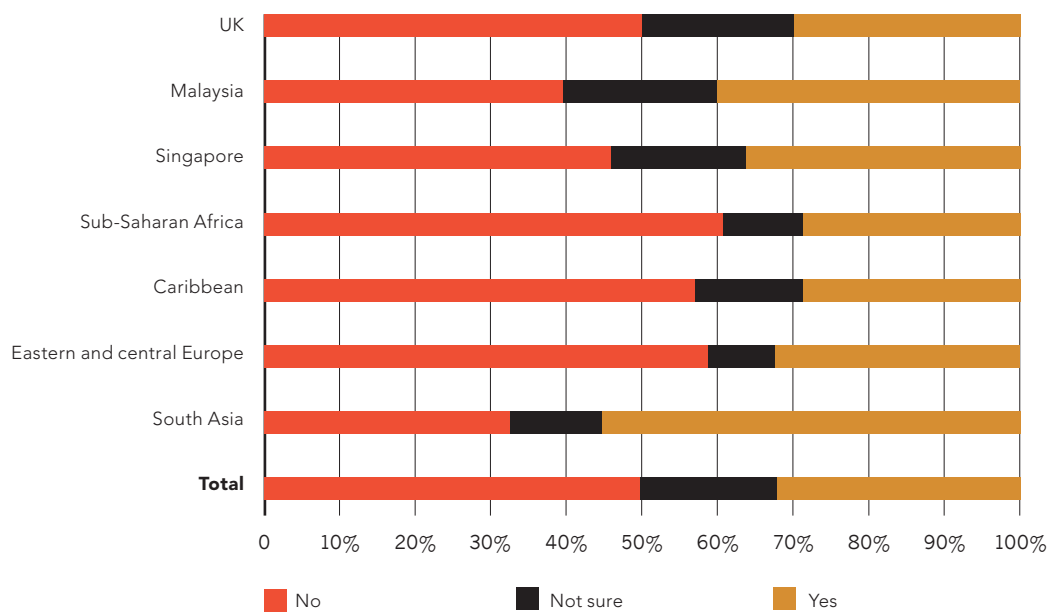
**Figure 6.9: Respondents' views on whether facilitation payments should be prohibited**





Any modification to the anti-bribery laws to accommodate SMEs could take a number of forms. Survey respondents who support the introduction of a modified regime were asked for their opinion on one possibility – the relaxation for SMEs of rules prohibiting the solicitation or payment of facilitation payments (Figure 6.9). One-third of respondents support such an idea, although a larger proportion (45%) oppose it.

**Figure 6.10: Respondents’ support for modified anti-bribery and corruption legislation for SMEs – regional breakdown**



**ADVICE AND GUIDANCE**

SMEs that encounter bribery and corruption in some form are likely to need advice and support, which could come from a number of sources. Not surprisingly, given the legal frameworks surrounding bribery and corruption issues, many survey respondents (45%) believe that SMEs are most likely to turn to their lawyer for help.

Opinions are, thereafter, somewhat divided: 18% think SMEs would be most likely to turn to members of their peer group, such as other business people and professionals; 15% of survey respondents identify an SME's

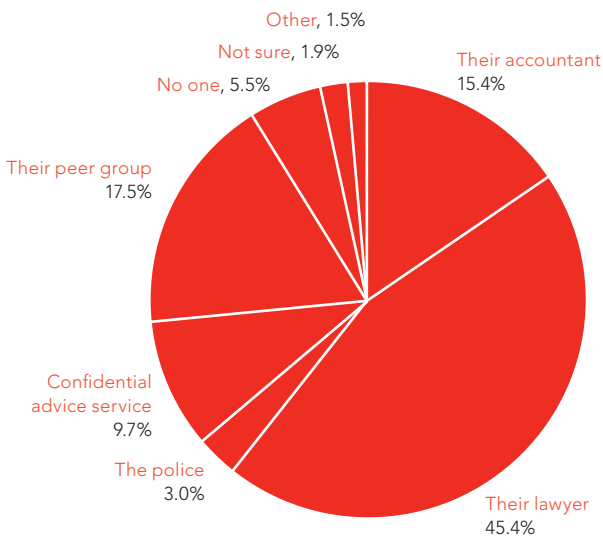
accountant as the most likely source of help; and 10% think SMEs would turn to some form of confidential advisory service.

Although accountants are not seen by most respondents as the first source of advice when bribery and corruption issues arise for SMEs, they are considered to have a role in helping SMEs protect themselves from bribery and corruption risks (Figure 6.12). Two-thirds of survey respondents globally believe that SMEs would welcome advice from their accountants in relation to the policies and practices they need to have in place to deal with possible cases of bribery and corruption.

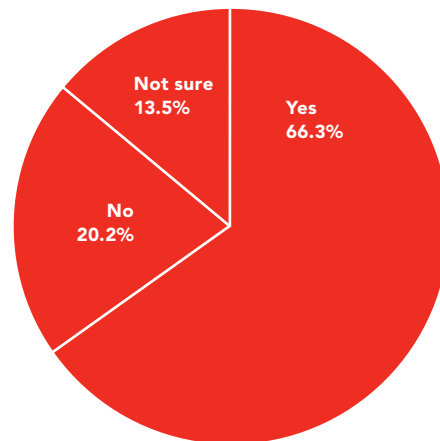
This would represent an expansion of the core services offered by most accountancy firms, and could require additional investment in skills training. It does, however, suggest that there is an opportunity for accountancy firms to enhance their position as the trusted business advisers to SMEs, offering the kind of business-focused, practical advice that can help clients address the risks they face when trading, both in domestic and international markets.

By helping their SME clients to improve policies and procedures for reducing bribery and corruption risks, accountants could help those clients

**Figure 6.11: Respondents' views on sources of advice for SMEs**



**Figure 6.12: Respondents' perceptions of SMEs' willingness to seek advice from accountants**



'SMEs need to be informed and educated on the risks and consequences involved for bribery and corruption.'

'As SMEs lack the resources and compliance know-how to manage threats and risks of bribery and corruption, SMEs are very vulnerable... Professional accountants play a vital role in the fight against bribery and corruption with sound knowledge of preventive, detective and combative measures.'

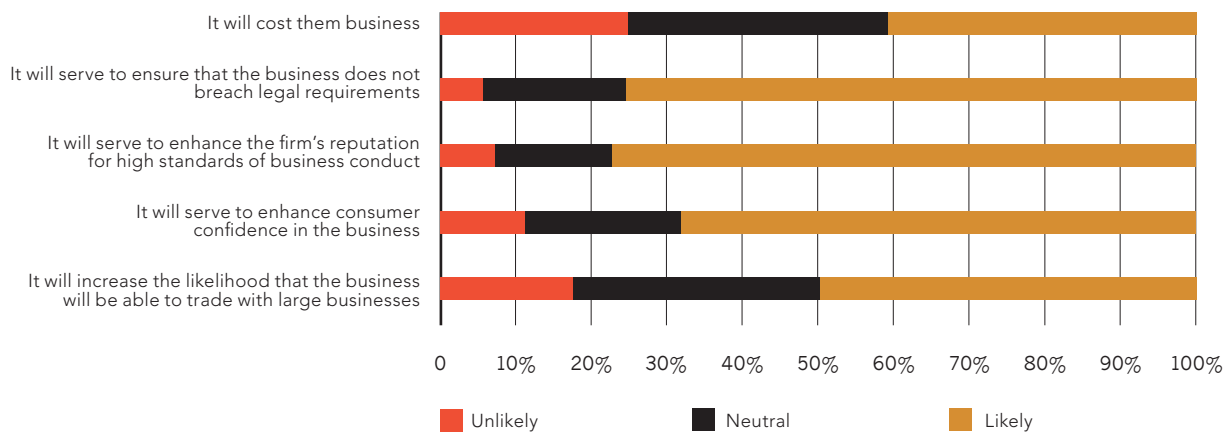
gain a number of benefits. Over three-quarters (77%) of survey respondents think it likely that SMEs demonstrating strong anti-bribery credentials will enhance their reputation for high standards of business conduct; 76% believe such SMEs would be less likely to breach legal requirements and 69% believe they will gain from enhanced consumer confidence in their business.

Half the survey respondents believe SMEs that demonstrate strong anti-bribery credentials will be more likely to be able to trade with large businesses and public bodies. This reflects the fact that global enterprises are increasingly concerned about their supply chain

exposure to a range of risks associated with corporate social responsibility, including bribery and corruption risks.

Around 4 in 10 respondents (41%) do believe, however, that proving strong anti-bribery credentials would be expensive for an SME business (Figure 6.13). From general comments made by respondents during the survey, it is clear that many believe that if SMEs refuse to make facilitation requirements or act in other ways perceived to be the norm in certain jurisdictions, they will not win some contracts. Some see this as a short-term cost on the way to building a stronger business; others fear that if businesses fail to comply with local

**Figure 6.13: Respondents' perceptions of the positive and negative consequences for SMEs that demonstrate strong anti-bribery credentials**



'Avoiding bribery and corruption could lead to long-term shareholder value and improve business goodwill although in the short run it could lead to costly loss of business.'

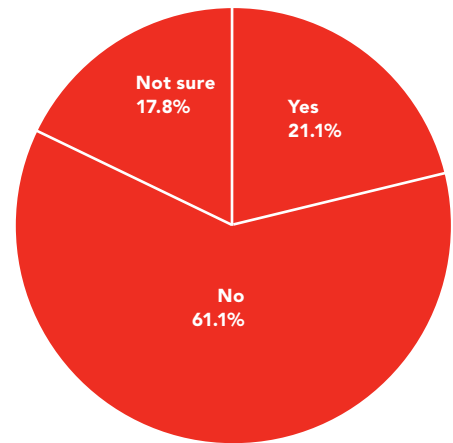
'SMEs that choose to be ethical and avoid bribery and corruption do not get awarded contracts.'

'Clear guidelines should be given to SMEs to help them understand the impact of bribery and corruption.'

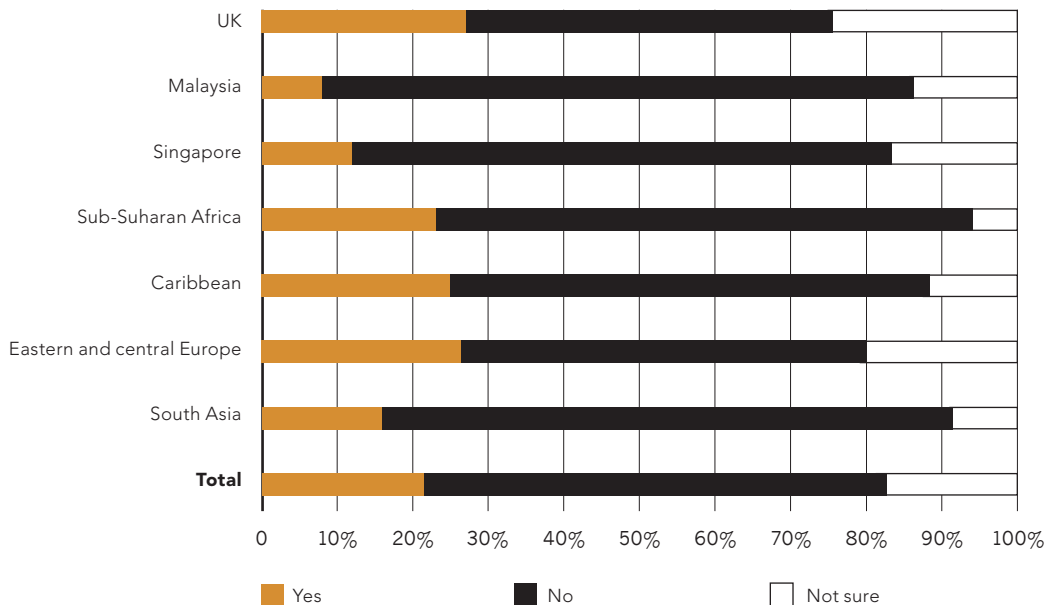
expectations (for example, by not making facilitation payments), they put themselves at risk of failure.

A strong message emerging from the survey findings is that SMEs need more guidance to help them address bribery and corruption risks. Just one in five respondents (21%) think sufficient guidance is available (Figure 6.14). The majority (61%) do not think there is currently sufficient guidance to help SMEs in identifying and dealing with bribery and corruption. This view is most apparent in Malaysia (where 78% of respondents think SMEs have insufficient guidance) and in south Asia (76%) (see Figure 6.15).

**Figure 6.14: Respondents' perceptions of the availability of suitable guidance for SMEs on bribery and corruption issues**



**Figure 6.15: Respondents' perceptions of the availability of suitable guidance for SMEs on bribery and corruption issues – regional breakdown**



## COMBATING BRIBERY AND CORRUPTION

If bribery and corruption risk is an issue for the SME community, what actions could be taken to reduce that risk or help SMEs address it? Survey respondents were asked to rate a number of options by effectiveness on a scale from one to five. The results show most importance being attributed to the creation of an environment where it is clear that illegal activity will not be tolerated. Over three-quarters of respondents believe that high-profile prosecutions would be most effective in helping SMEs reduce their bribery and corruption risk (they awarded this one of the two highest

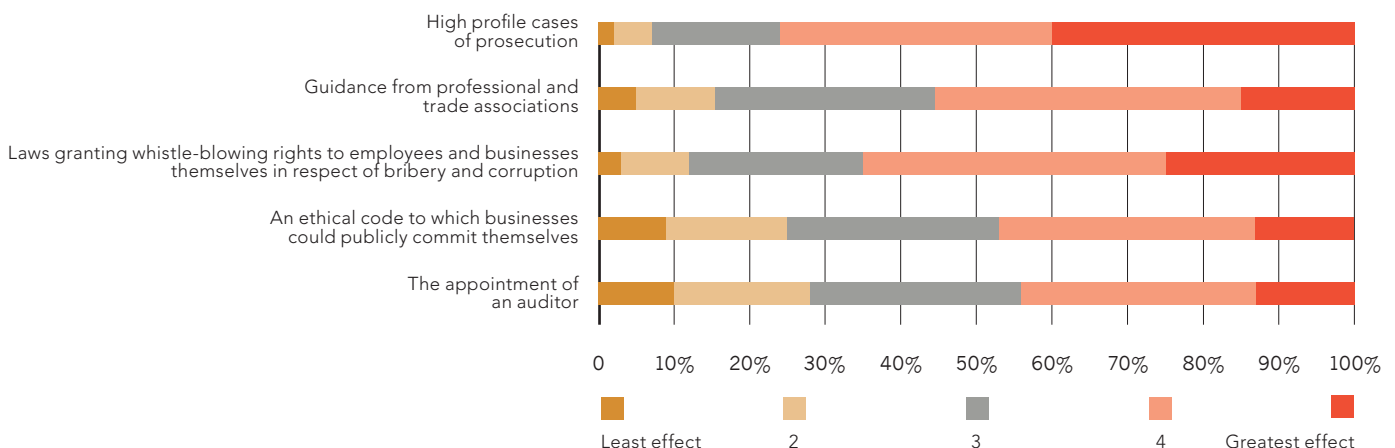
effectiveness ratings; Figure 6.16). High-profile prosecutions would send a strong message that laws will be enforced, encouraging more businesses to take the adoption and application of their anti-bribery policies and procedures seriously.

Survey respondents also see value in creating an environment where concerns about possible bribery and corruption can come to light. Almost two-thirds (65%) give a high effectiveness rating to laws granting whistle-blowing rights to employees and businesses where they encounter instances of bribery and corruption.

A majority also see benefits in the development of guidance from professional and trade associations, 55% expecting this to be relatively highly effective. This is consistent with the earlier finding that the majority (61%) of respondents do not think there is currently sufficient guidance to help SMEs in identifying and dealing with bribery and corruption.

Some respondents also see value in the existence of an ethical code to which businesses could commit themselves publicly (48%) and in the appointment of an auditor (44%).

**Figure 6.16: Respondents' perceptions of the effectiveness of different measures in helping SMEs deal with bribery and corruption issues**



**CAUSE FOR CONCERN**

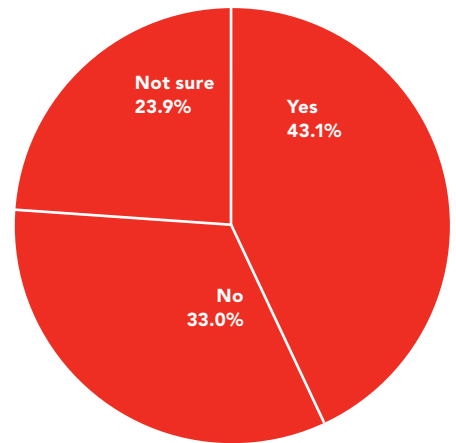
So are bribery and corruption, in general, a cause of concern to SMEs? More than 4 in 10 survey respondents (43%) think that they are, although one-third disagree (Figure 6.17).

Regional analysis of the survey responses, however, reveals a dramatic divergence of views. In the developed market of the UK, just 22% of survey respondents think that, in general, bribery and corruption amount to a cause of concern to SMEs. In contrast, the vast majority of respondents in sub-Saharan Africa (77%) do think bribery and corruption are a cause of concern to SMEs, as do 62% of

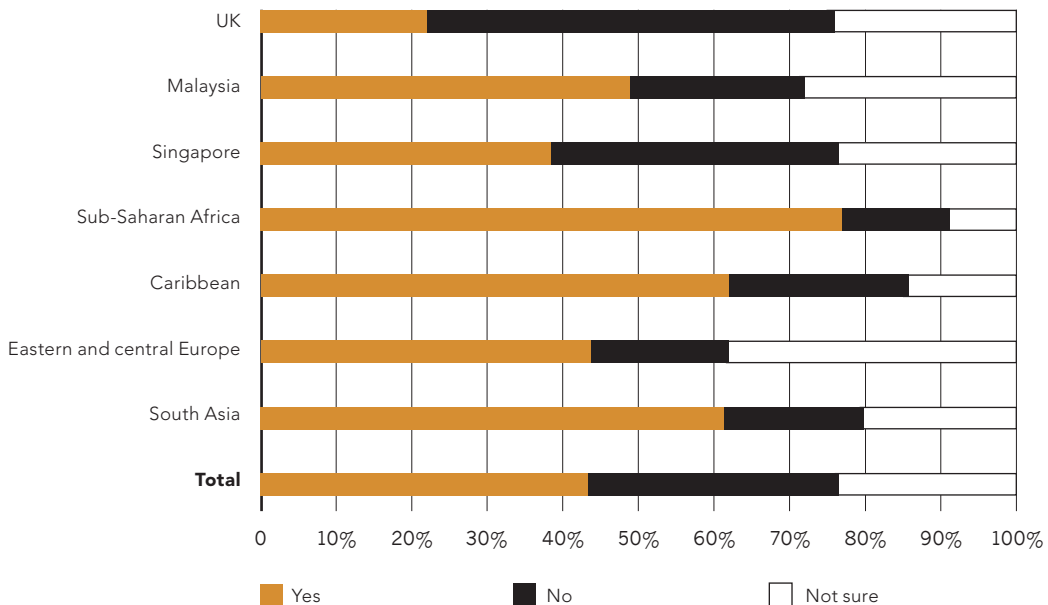
respondents in the Caribbean and 61% in south Asia. These are also the regions where a majority of respondents believe SMEs need more guidance in dealing with bribery and corruption. Similarly, the majority of respondents in sub-Saharan Africa and the Caribbean are opposed to anti-bribery laws that incorporate a modified regime for SMEs – a response that is consistent with high levels of concern about the impact of bribery and corruption.

Those respondents who do believe bribery and corruption to be a cause of concern to SMEs were asked to explain why. Unprompted, respondents compared bribery and corruption to a disease or a rot that, if unchallenged, can

**Figure 6.17: Respondents' perceptions of concern among SMEs on bribery and corruption issues**



**Figure 6.18: Respondents' perceptions of concern among SMEs on bribery and corruption issues**



spread through the business community, damaging individual enterprises and ultimately national economies.

A number of specific themes emerge. Many respondents note that bribery and corruption:

- are anti-competitive, creating an uneven playing field between businesses (large and small) that pay bribes and those that do not
- increase business costs (whether through the need to pay bribes or through the burden of complying with anti-corruption regulations)
- lead to suboptimal resource allocation
- jeopardise SMEs' future viability as they are less able to compete and are more vulnerable to the impact of legal action
- threaten to damage business reputation
- make it harder to attract investment
- affect employee morale and waste management time
- slow down decision making by public officials and during business transactions
- can damage a nation's economic growth.

Many survey respondents highlighted the widespread nature of bribery and corruption, commenting that they are rife in their market or in overseas jurisdictions, or when seeking to win public contracts. It is thus hard for SMEs to avoid situations where the potential for bribes exists, or where they are an expected part of business life. At the same time, survey respondents frequently note that SMEs may have weaker internal controls, fewer resources to address bribery and corruption risks, or less general awareness of bribery and corruption issues.

#### **BOX 1: WHY ARE BRIBERY AND CORRUPTION A CAUSE OF CONCERN FOR SMEs?**

Global survey participants made the following comments.

'Corruption creates unfairness in business dealings. The ground for competition is not level.'

'It makes the cost of doing business higher and hence [makes business] less profitable. And the problem is [that] once it is done the first time it is expected the next time.'

'It makes it more challenging for legitimate SMEs to conduct businesses and to be treated fairly.'

'Increased costs and risk of regulatory and legal action.'

'This is a very big cause of concern especially in developing countries because it ends up destroying other SMEs' businesses that do not engage in bribery and corruption.'

'It will be costly if foreign investments are deterred due to bribery and corruption.'

'SMEs have been touted as highly prone to bribery and corruption due to the perception of weak control environments of SMEs.'

'Because it is difficult to get things done speedily by public officials without some form of bribe.'

'All business[es] are affected but the outcome for an SME can be devastating.'

## 7. What can SMEs and policymakers learn?

Many SMEs may take the view that their risk of encountering bribery in the course of their activities will be small; for that reason they may believe that they need not spend time, effort and resources in assembling proactive plans to mitigate that risk.

Even so, this survey has found strong support for the proposition that the risk is present at the SME level too, and therefore needs to be addressed and managed by smaller firms: over 62% of respondents disagreed with the statement that SMEs are not generally likely to come across the risk of bribery during the course of their business dealings (Figure 6.1). The survey also suggests a high level of acceptance of the idea that, even at the SME level, anti-bribery and corruption (ABC) programmes are likely to have practical benefits (Figure 6.13): 77% believe that the adoption of such programmes would enhance the firm's reputation for high standards of business conduct, almost 76% that it would help ensure the firm does not break the law, and almost 69% that it is likely to enhance consumer confidence.

While the scale of acts of bribery may not be as great at the SME level as can be the case in larger organisations, there are good reasons for arguing that ABC practices can be as relevant to the SME sector as they are to any other.

Firstly, SMEs will often form part of the supply chains of larger companies and public sector bodies. Those entities will often have internal ABC policies and practices which they will require to be satisfied by any business with which they transact. If an SME does not have an active and demonstrable commitment

to ABC, or is not able to comply with the specific standards expected by a potential trading partner, it will reduce its prospects of doing business with that other entity. Accordingly, adopting a commitment to fair and transparent business conduct tends to enhance a company's viability as a trading partner (as well as helping the larger company to ensure ABC compliance throughout its own supply chain).

Secondly, while SMEs make up the great majority of trading businesses in all countries, the comparatively limited resources and trading options of many SMEs can make them more vulnerable to exploitation by those who are prepared to offer or take bribes. Hence, for there to be a properly coordinated approach to combating bribery and corruption, effective action is required at the SME level to ensure that smaller businesses have the commitment and the support to be able to resist. Having a clear statement of policy and a strong cultural commitment to ABC practices will help to increase a smaller firm's ability to ensure that resistance.

Thirdly, and perhaps of most direct significance to individual businesses, the introduction of far-reaching legislation such as the UK's Bribery Act and the US FCPA, both of which carry severe penalties for non-compliance, has made it essential that businesses of all types and sizes take this issue seriously. They must take effective action to ensure that they do not fall foul of the criminal law, with the long-term risks to business reputation that that can carry.

A concern shared by many SMEs, however, is that they cannot justify the

cost and administrative burden of adopting formal ABC policies and practices – arrangements which can involve the buying-in of specialist external expertise. In the current economic climate, particularly, this is a legitimate concern; the effectiveness of the spread of ABC preventative measures in the SME sector must depend to some extent on recognising that the steps appropriate for SMEs are likely to be different in scale from those suited to large corporates or public bodies. It would certainly be inappropriate to expect SMEs to adopt the same breadth and depth of ABC controls, and to invest comparable amounts of money, when their exposure to risk is, objectively, modest or small. Furthermore, SMEs are not a homogeneous group – an SME can be anything from a small, owner-managed personal services business (often referred to as a micro business) to a complex and material business with non-executive directors, significant numbers of outside shareholders and ambitions for continued growth.

This need for proportionality has been recognised in the official guidance issued to businesses by the UK government on the implementation of the requirements of the Bribery Act 2010 – with special focus on the internal control arrangements that all affected businesses are required to put in place. This guidance emphasises that what constitute 'adequate' ABC controls cannot be determined on a uniform basis. What is 'adequate' will depend, in any particular case, on a number of factors, including the size of the business and the risks that it faces. The official guidance contains the following passages.



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'Adequate bribery prevention procedures ought to be proportionate to the bribery risks that the organisation faces. An initial assessment of risk across the organisation is therefore a necessary first step. To a certain extent the level of risk will be linked to the size of the organisation and the nature and complexity of its business, but size will not be the only determining factor. Some small organisations can face quite significant risks, and will need more extensive procedures than their counterparts facing limited risks. However, small organisations are unlikely to need procedures that are as extensive as those of a large multinational organisation. For example, a very small business may be able to rely heavily on periodic oral briefings to communicate its policies while a large one may need to rely on extensive written communication.'

(UK Ministry of Justice 2011)

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'The level of risk that organisations face will also vary with the type and nature of the persons associated with it. For example, a commercial organisation that properly assesses that there is no risk of bribery on the part of one of its associated persons will accordingly require nothing in the way of procedures to prevent bribery in the context of that relationship. By the same token, the bribery risks associated with reliance on a third-party agent representing a commercial organisation in negotiations with foreign public officials may be assessed as significant and accordingly require much more in the way of procedures to mitigate those risks. Organisations are likely to need to select procedures to cover a broad range of risks but any consideration by a court in an individual case of the adequacy of procedures is likely necessarily to focus on those procedures designed to prevent bribery on the part of the associated person committing the offence in question.'

(UK Ministry of Justice 2011)

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Guidance of this kind puts the onus for determining what is likely to be effective in mitigating exposure to bribery and corruption on the company itself. In order to form a view on what is likely to be effective, the company should first carry out a review of the extent and types of risk that it faces, a combination of variables likely to be different for each individual business. This approach recognises that it would be reasonable for a small entity that trades only domestically, in a low-risk line of business and with a small or defined group of suppliers and customers, to adopt ABC controls that are substantially different in nature and scale from those appropriate in the case of a multinational enterprise trading in a high-risk sector, such as construction or armaments, or trading with high-risk countries (as evidenced by the corruption indices published by the World Bank and Transparency International). In countries where ABC requirements are not imposed by law or regulation, this approach will still be appropriate.

At the less sophisticated level, therefore, effective arrangements to mitigate businesses' exposure to bribery and corruption risk need not be unduly burdensome in either cost or management time. The key to the adoption of a proportionate and effective approach is for managers to understand the significance of the issue for their company – this will encompass compliance with the law, competence to do business with partners, and business reputation – and then to commit themselves to adopting a values-driven programme of action.

## **BOX 2: PRINCIPLES THAT SHOULD BE CAPABLE OF ADOPTION AND APPLICATION BY EVEN THE SMALLEST OF FIRMS**

- 1 We will carry out our business fairly, honestly, and openly (example: we will keep clear records and be transparent in payment terms).
- 2 We will not pay bribes, nor we will condone the offering of bribes on our behalf, so as to gain a business advantage (example: no bribes will be paid by our agents).
- 3 We will not accept bribes, nor will we agree to their being accepted on our behalf in order to influence business (example: we will exercise careful management of commission payments).
- 4 We will avoid doing business with others who do not accept our values and who may harm our reputation (example: we will choose our business partners carefully).
- 5 We will set out our processes for avoiding direct or indirect bribery, and keeping to and supporting our values (example: we will institute a process for dealing with gifts and entertainment).
- 6 We will keep clear and updated records (example: we will keep records of decisions about giving donations or how a demand for a bribe or a conflict of interest was handled).
- 7 We will make sure that everyone in our business and our business partners know our principles (example: we will ensure that there is no excuse for not knowing by ensuring good internal communications and training).
- 8 We will regularly review and update our programme and processes as needed (example: we will learn from experience and from networking with others).
- 9 We will keep to these principles even when it becomes difficult (example: we will not make facilitation payments).

Source: *Business Principles for Countering Bribery: Small and Medium Enterprises Edition*, © Transparency International 2008.

In 2008 Transparency International issued a special edition of its long-standing publication *Business Principles for Countering Bribery*, which was framed specifically for an SME audience (Transparency International 2008). This document set out a number of fundamental principles which should be capable of adoption and application by even the smallest of firms. These are reproduced in Box 2.

Other sources of guidance for SMEs are also available. A US organisation, the Society of Corporate Compliance & Ethics (SCCE), has published a useful guide for smaller businesses on how they can construct effective compliance programmes at minimal financial cost. The guide is not intended solely for application to the ABC issue but can easily be adopted for it. See Box 3 for a summary of the main elements of the guidance.

### BOX 3: ELEMENTS OF A MINIMAL-COST COMPLIANCE PROGRAMME

- i) **Identify the risks your business faces and assess the danger they present**
  - Think about areas of risk and which ones might or do affect your business.
  - Document the areas of risk that you think apply to you.
  - Make yourself aware of problems that comparable businesses have encountered.
- ii) **Adopt standards and procedures**
  - Write a statement of your company's commitment to abiding by the law and doing the right thing.
  - Prepare a policy/code of conduct for your business (or formally adopt a pre-existing one).
  - Get endorsement of the policy/code of conduct from the highest authority within the business.
- iii) **Arrange for the policy/code of conduct to be managed by a suitable designated person and get commitment from the top of the business**
  - Arrange for the person appointed to report regularly to the directors/partners or equivalent on the operation of the programme.
  - Ensure that the person appointed has the right of access to the senior person or governing body of the company.
  - If your business has multiple locations, appoint someone suitable to assume responsibility for local implementation of the programme.
- iv) **Take care when recruiting and promoting individuals, especially to sensitive and responsible positions**
  - Always check references and track records.
  - Consider their commitment to the agreed policy/code of conduct.
  - Do not give unfettered internal authority to local business units.
- v) **Adopt systems to address the risk of dealing with third parties**
  - Conduct due diligence on prospective agents, consultants and other business partners.
  - Check whether they have similar programmes themselves.
  - Include contractual clauses that indicate that you expect third parties to obey the law and act ethically.
- vi) **Communicate your policy/code of conduct to staff and anyone else who needs to be aware of it**
  - Make it available in accessible format and refer to it regularly.
  - Make it clear that staff are expected to read it and understand how it applies to them.
  - At staff meetings, discuss a particular area of risk in the context of the policy/code of conduct.
- vii) **Adopt procedures to monitor how the policy/code of conduct is operating in practice**
  - Talk to staff and get their feedback on how the programme is working.
  - When employees leave, conduct exit interviews and ask for feedback about the programme.
  - Invite employees, agents and other stakeholders to inform you of any concerns on a confidential basis.
- viii) **Impose disciplinary measures in cases of violation**
  - Have appropriate measures available and be prepared to use them.
  - Where you provide in-house training on the policy/code of conduct, make it clear that the training is mandatory.
- ix) **Incorporate the policy/code of conduct into the company's system of performance management**
  - Cover compliance with and commitment to the programme in the process of performance appraisal.
  - Ask staff what they have done to champion the programme.
  - Consider ways of rewarding those who show a particular commitment to the aims of the programme.
- x) **Where you identify weaknesses and violations, respond appropriately**
  - Take remedial action whenever your internal reviews identify weaknesses.
  - Discuss failures at the highest level within the business and identify and implement measures to prevent them from re-occurring.

Source: SCCE 2012.

## 8. Conclusions

Governments and regulators around the world are learning some important lessons from the financial crisis, and one of these lessons must be that the focus on economic recovery needs to go hand in hand with the promotion of an ethical approach to business conduct. As the focus moves from economic survival towards building more sustainable business environments, eradicating bribery and corruption must remain high on the policy agendas of national governments and international institutions alike. The position of SMEs needs to become central to these efforts.

There is no doubt that the difficult economic environment, which is likely to affect much of the world for some time to come, is posing real challenges to accountants and auditors across the business spectrum. Many companies are under severe pressure to win and retain business and to comply with financing targets, while many of the individuals they employ may be subject to personal pressures which result in the temptation to divert company funds. Given that the function of annual financial statements is to reflect the reporting company's transactions accurately and comply with all applicable requirements of the law and technical standards, accountants and auditors have to be alert at this time to the heightened possibility of the deliberate misstatement of accounting information.

Related to the issue of transparency in financial reporting is the continuing trend worldwide for governments to reduce the amount of information that small companies are required to prepare and publish (and to restrict the

range of companies whose annual accounts must be subjected to independent audit). This is happening, for the most part, in the name of eliminating superfluous administrative burdens. If, however, companies are required to prepare and publish only very limited information about their affairs this may unintentionally create conditions for illicit acts to take place and remain hidden.

The results of the ACCA survey reported here provide encouraging evidence that SMEs are recognising not only the ethical case for but also the business benefits of a principled commitment to ABC policies and practices. As well as the strong support shown for the role of ABC programmes in enhancing a firm's market reputation, almost 50% of respondents argue against the idea of any relaxation of ABC laws for the SME community (Figure 6.8) and almost 45% oppose the idea that, even where facilitation payments are banned generally, they should be allowed in the case of SME transactions (Figure 6.9). This suggests that there is a widespread appreciation within the SME sector of the logic of adopting an integrated and properly values-driven approach to the regulation of bribery in business.

Despite these promising declarations, it nevertheless appears that many SMEs still believe that they are exposed and isolated in this area: 61.1% believe there is not enough tailored guidance available for SMEs (Figure 6.14). The apparent goodwill of the SME community towards the aims of the ABC effort needs to be encouraged by renewed efforts to help them manage

the risks that they face. It is well understood that SMEs, because of their limited in-house resources, find it difficult to cope with the burden of regulation and, in particular, with frequent changes in regulatory demands. There is a clear role here for professional advisers such as accountants and solicitors and their representative bodies; large companies could also play an important role in this respect by taking an active interest in the encouragement of a proportionate commitment to ABC policies and practices on the part of their SME suppliers.

Among the official actions that can make a difference, it appears that a strong and decisive approach to the prosecution of bribery cases by government authorities is seen by SMEs as being the single step most likely to have a beneficial effect on the behaviour of individuals and businesses alike (Figure 6.16). Where laws exist to criminalise and prosecute bribery, therefore, they should be used to their full effect in order to set the tone of official attitudes to bribery; where such laws do not currently exist, introducing them should be given serious consideration. Many respondents to the survey also consider that whistle-blowing laws, whereby employees and businesses themselves are able to channel their knowledge or suspicions about internal acts of bribery to designated authorities, could help to influence behaviour and deter wrongdoers.

Ultimately, the practice of offering and accepting bribes is a manifestation of a disregard for the principle of fair

competition and for the interests of those who will be adversely affected by corrupt acts. Continued action is necessary at the government level to emphasise the message that these practices are not to be tolerated; but there also needs to be commitment, at the micro level, and on the part of businesses and individuals alike, to the adoption and implementation of ethical values-based policies and practices.

The full restoration of trust and confidence in the business sector can only be achieved when all stakeholders are able to believe that business is being conducted fairly and transparently. By adopting a cultural commitment to ABC practices, supported by proportionate but formal policies, individual businesses can help themselves and, by extension, help to restore confidence in the business sector as a whole.

## Appendix : The role of accountants in countering bribery

Accountants have an important role to play in ensuring that businesses large and small adhere to the rules. They work in a wide variety of roles in relation to businesses. Where they work 'in house', they act as preparers of accounts, management accountants, internal auditors, control specialists and risk managers. Accountants in large companies frequently become CFOs, an increasing number of whom go on to become CEOs. Where they act in an external capacity they act as auditors and providers of general business support services.

Whether they work within businesses or as auditors or professional advisers to them, accountants will be subject to a combination of legal, technical and ethical strictures covering their responsibilities in respect of illegal activities of various kinds that they come across in the course of their work. These strictures are likely to have either a direct or indirect effect on how accountants approach and deal with evidence or suspicions of bribery.

The applicable rules on the preparation and disclosure of accounting information will invariably be laid down in national law, and so accountants and others involved in preparing annual and periodic financial statements will be obliged to act in accordance with those rules. In many countries there will be an additional obligation for preparers to follow the requirements of technical standards, whether these be the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board or domestic standards issued by a national or regional standard-setting authority. The *Code of Ethics* issued by the International Federation of Accountants (IFAC 2012), to which most professional accountants are subject, identifies one of the key fundamental principles as the duty of professional competence and due care – this amounts to a duty to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques, and a duty to act diligently and in accordance with applicable technical and professional standards. Hence, all accountants are obliged to ensure that the work they carry out in respect of the preparation of an entity's annual accounts complies with legal and technical requirements.

The supporting recommendations to the OECD convention underline the contribution that effective controls and

accounting rules can make to the fight against bribery. They recommend that signatory countries take the steps necessary to ensure the proper recording of transactions by companies and to prohibit the booking of non-existent expenditure. They also call on governments to encourage all companies to develop and adopt adequate internal controls, ethics and compliance programmes for the purpose of preventing and detecting acts of bribery.

Those accountants who work as auditors will usually be required to conduct their work in accordance with the International Standards on Auditing (ISAs) issued by IFAC. As well as governing the procedures which they are expected to carry out in planning and conducting their audit work, ISAs identify the steps that auditors must follow when they encounter fraud, deficiencies of internal control within the client company and other matters that IFAC considers need to be evaluated by the highest level within the entity.

Separately, the FATF Recommendations on anti money laundering and the countering of terrorist financing (AML/CTF) call on all national governments to require accountants in public practice to carry out a number of actions with a view to monitoring criminal activity in the affairs of their clients, and to communicate their suspicions to the relevant domestic authorities (FATF 2012). Among the criminal acts that should fall within the scope of this monitoring and reporting activity are those relating to corruption. Accordingly, and depending on the way that individual governments apply the FATF Recommendations, all accountants in public practice should have legal responsibilities to be aware of and to react to signs of bribery and corruption activities in the affairs of their clients.

More generally, the IFAC Code of Ethics also stipulates that all accountants, whatever roles they play, are subject to the fundamental principle of professional behaviour, whereby they are obliged to comply with all relevant laws and regulations and to avoid any action that the professional accountant knows or should know may discredit the profession. This includes actions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude adversely affect the good reputation of the profession.

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