



# **ASSESSING THE TRUE COST OF CORRUPTION AND UNETHICAL BEHAVIOUR TO THE BUSINESS**

**By**

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# INDIVIDUAL EXERCISE



WHAT COMES TO MIND WHEN YOU HEAR THE WORD  
**CORRUPTION?**

WHAT DOES **UNETHICAL PRACTICE** MEAN TO YOU?

# DEFINITIONS



**CORRUPTION:** The Abuse of Entrusted Power for Private Gain.

**ETHICS:** Moral principles that govern a persons behavior or the **conducting of an activity** (Business Ethics)

**COST:** Cause the loss or unpleasant/negative consequences of (In our case the business)

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# INDIVIDUAL EXERCISE



1. WHAT ARE SOME OF THE EFFECTS OF CORRUPTION AND UNETHICAL PRACTICES GENERALLY?
  
2. WHICH OF THESE EFFECTS AFFECT BUSINESSES?

# Effects of Corruption



1. The world loses 5-10% of its annual GDP to corruption
2. Corruption undermines integrity of institutions : fairness, objectivity, equal access etc.
3. Corruption distorts the application of laws, policies, regulations and priorities
4. Corruption leads to loss of legitimacy in leadership and decision-making leading to loss of confidence and support.
5. Corruption increases the cost of doing business
6. Corruption impedes economic growth – such as through discouraging investment

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# Effects of Corruption on Business



1. Loss of finances/profit losses
2. Cash flow is impacted – as cash flows into the pockets of dishonest staff
3. Assets and liabilities are mis-stated
4. Fines, penalties, sanctions, debarments
5. Reputational damage
6. Fewer business opportunities
7. Low staff morale > loss of productivity

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# Fraud: Meaning



- Occupational fraud is the use of one's position to exploit, through misuse or misappropriation, an organization's resources and assets for personal gain (embezzlement or corruption)
- There are three broad categories of fraud > Corruption > Asset misappropriation and financial a statement fraud
- Asset Misappropriation = Theft of physical assets or abuse of the benefits of physical assets for private benefit/gain > excessive billing > theft of non-cash assets > exaggerated or non-business related expenses reimbursement.
- Financial statement fraud = the deliberate misstatement or omission of company financial statement data with the intent of misleading the reader to believe the company is in a better financial position than it truly is.

# Fraud : Nature and Cost



- Crowe & Centre for Counter-Fraud Report – Financial Cost of Fraud Report 2019 – US\$5.127 Trillion (World Spends US\$7.422 on Health)
- Fraud is an ever present, high volume, low value problem and only a small proportion is detected. The question is not if it is taking place, but at what level
- Fraud should be viewed as a business cost – by understanding the nature and scale of the cost, we can reduce its extent – enhancing the profitability of companies and ensuring better funded public sector and charitable organizations

# Prevention of Fraud



- Prevent it / Find it and stop it/punish it
- Establish a statement of business values – this provides a framework of expected behavior for employees and the company/business owner
- Align strategy and objectives to the businesses ethical standards.
- Review operating procedures and performance management to make sure they align with the business ethical standards > Should not encourage unethical behavior
- Business managers and owners should model the desired values and conduct – lead by example.

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# What needs to be done?



- Review and test internal control systems periodically to strengthen prevention
- Put in place protocols for dealing with fraud when detected
- Adapt controls in place to ever changing fraud environment
- Incorporate staff and customer client feedback

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ASANTE!

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