Countering Corruption Part II - ISO 37001 Compliance and Certification - What’s Next?

February 2017

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LEARNING OBJECTIVES

- Effectively implement the standards within their existing management processes and controls
- Leverage the ISO 37001 framework to mitigate risk in light of declining internal resources
- Use periodic monitoring to identify and control risks and compliance issues
- Determine what ISO 37001 certification will look like if they ultimately decide to participate

AGENDA

I. Meet the Presenters
II. Update on Status of ISO 37001
III. Implementation
IV. Continuous Monitoring and Forensic Tools
V. Questions & Resources
VI. Presenter Biographies
MEET THE PRESENTERS

PRESENTERS

Leslie Benton
Senior Vice President of Advocacy and Stakeholder Engagement
Center for Responsible Enterprise and Trade (CREATe.org)

Nina Gross
Global Forensics Practice Leader
BDO USA, LLP

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BDO USA, LLP
UPDATE ON STATUS OF ISO 37001

WHAT IS ISO?

➢ The International Organization for Standardization (ISO) develops and publishes international standards.

➢ It is a global Non-Governmental Organization (NGO).

➢ Its members are the national standards bodies from 163 countries.

➢ It has published nearly twenty thousand international standards.
ISO 37001: PURPOSE AND APPLICATION

Purpose:
- Help organizations establish, implement, maintain, and improve an anti-bribery compliance program or “management system”
- Organizations can seek third-party certification or can use as guidance

Includes:
- Measures and controls that represent global anti-bribery leading practice

Addresses:
- Foreign and commercial bribery both inbound and outbound

Applicable to:
- Public, private and non-profit sectors

ISO 37001: TEAM & TIMELINE

- Project Committee ISO/PC 278 established in 2013.
- Consists of 56 countries and 7 liaison organizations.
- Delegations comprised of experts from industry; legal, consulting and audit communities; academia; government
- Published October 2016.
CHALLENGES AND BENEFITS

- No global standard to design, implement, or evaluate an organization’s Anti-Bribery Management System.
- No shortage of guidance related to anti-bribery programs and controls, but much is U.S. centric.
- Companies spend a significant amount of time, money, and resources on developing the “right” anti-bribery program and controls, as well as evaluating the anti-bribery programs of other companies.
- Develop, improve, or benchmark an existing anti-bribery program;
- Measure and evaluate the anti-bribery programs of business partners using a single “yardstick”;
- Obtain an anti-bribery certification, if desired, to demonstrate a commitment to combat bribery, as well as a competitive advantage;
- Set expectations with third parties regarding preferred qualifications or eligibility requirements for new or existing business relationships; and
- Reduce or avoid certain anti-bribery program costs.

ISO 37001 - STANDARD REQUIREMENTS

A series of measures and controls to help prevent, detect, and address bribery risk, among them:
- An anti-bribery policy, procedures, and controls
- Defined roles for governing body, top management and the compliance function
- Communication and training
- Risk assessment
- Due diligence on projects and business associates
- Monitoring and auditing
- Corrective action and continual improvement
IMPLEMENTATION

IMPLEMENTING THE STANDARD

- The program can be standalone or integrated into a larger management system.
- Risk assessment serves as the foundation for the program’s scope and objectives.
- Policies, procedures and controls should be “reasonable and proportionate” to bribery risks.
- Organizations must implement controls where this is “more than a low risk of bribery”
- Emphasis on documentation.
- Emphasis on continual improvement.
CERTIFICATION & AUDITOR COMPETENCY

- Certification is voluntary... but some governments are considering requiring ISO 37001 certification for public contracting.
- Certifying bodies governed by 37001-specific auditor competency requirements.
- Certification is valid for three years with an annual surveillance audit.
- Remember:
  - Accreditation provides independent confirmation of competence, but is not compulsory
  - Non-accreditation does not necessarily mean an auditor is disreputable
  - To find an accredited auditor, contact:
    - ANSI-ASQ Accreditation Board (ANAB) in the U.S.; or
    - Visit the International Accreditation Forum (IAF)

CONTINUOUS MONITORING AND FORENSIC TOOLS
EMPLOYING FORENSIC TOOLS

Inefficiency Drives Cost

In-House Trends
Responding to Industry Pressures

- Staffing Costs Increasing: Globally, 66% expect cost of senior compliance staff to increase with 21% expecting costs to rise significantly.
- Staffing Constraints Hamper Compliance: 65% believe staffing constraints are the biggest obstacles to their companies’ ability to mitigate risk.
- Hiring Qualified Talent is Difficult.

Strong Demand for Doing MORE with LESS!
INTERNAL DRIVERS FOR EMPLOYING FORENSIC TOOLS

- Data volumes are growing exponentially
- People fail to identify complex patterns and anomalous trends
- Business processes and controls don’t operate perfectly
- 3rd party due diligence has limitations
- Toxic employees exist
- Performance pressures have not abated
- Compliance assets are being spread thinner
- Collusive behavior is on the rise
- Reduces losses

EFFECTIVENESS OF CONTROLS

Figure 59: Median Loss Based on Presence of Anti-Fraud Controls

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Controls</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive Data Monitoring/Analysis</td>
<td>36.7%</td>
<td>$200,000</td>
<td>$200,000</td>
<td>54.0%</td>
</tr>
<tr>
<td>Management Review</td>
<td>64.7%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Hotline</td>
<td>0.1%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Management Certification of Financial Statement</td>
<td>71.9%</td>
<td>$104,000</td>
<td>$205,000</td>
<td>49.3%</td>
</tr>
<tr>
<td>Surprise Audits</td>
<td>37.8%</td>
<td>$100,000</td>
<td>$195,000</td>
<td>48.7%</td>
</tr>
<tr>
<td>Dedicated Fraud Department, Function, or Team</td>
<td>41.2%</td>
<td>$100,000</td>
<td>$102,000</td>
<td>43.4%</td>
</tr>
<tr>
<td>Job Rotation/mandatory vacation</td>
<td>99.4%</td>
<td>$100,000</td>
<td>$130,000</td>
<td>42.4%</td>
</tr>
<tr>
<td>External Audit of Internal Controls over Financial Reporting</td>
<td>67.8%</td>
<td>$105,000</td>
<td>$200,000</td>
<td>47.5%</td>
</tr>
<tr>
<td>Fraud Training for Management/Executives</td>
<td>51.2%</td>
<td>$100,000</td>
<td>$150,000</td>
<td>47.3%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>51.9%</td>
<td>$100,000</td>
<td>$100,000</td>
<td>46.7%</td>
</tr>
<tr>
<td>Periodic Fraud Risk Assessments</td>
<td>39.2%</td>
<td>$100,000</td>
<td>$105,000</td>
<td>46.5%</td>
</tr>
<tr>
<td>Employee Support Programs</td>
<td>56.9%</td>
<td>$100,000</td>
<td>$162,000</td>
<td>45.4%</td>
</tr>
<tr>
<td>Anti-Fraud Policy</td>
<td>46.3%</td>
<td>$100,000</td>
<td>$135,000</td>
<td>42.9%</td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td>73.7%</td>
<td>$123,000</td>
<td>$215,000</td>
<td>42.3%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>81.1%</td>
<td>$120,000</td>
<td>$200,000</td>
<td>40.0%</td>
</tr>
<tr>
<td>Rewards for Whistleblowers</td>
<td>72.1%</td>
<td>$100,000</td>
<td>$183,000</td>
<td>38.7%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>82.5%</td>
<td>$114,000</td>
<td>$180,000</td>
<td>36.7%</td>
</tr>
<tr>
<td>External Audit of Financial Statements</td>
<td>81.3%</td>
<td>$150,000</td>
<td>$175,000</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

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Doing More With Less

Data mining software coupled with advanced analytics and exception management capabilities + Established forensic protocols and recognized investigative methods

• Real-time (or near real-time) detection of:
  - Potentially anomalous transactions
  - High-risk relationships
  - Compliance failures
  - Circumvention of controls
FORENSIC ANALYSIS

- High risk relationships:
  - Usual suspects
  - Undisclosed affiliations
  - Questionable payment attributes
  - List matching
- Potentially Anomalous Transactions
  - Represent a fraction of the overall transaction volume
  - Designed to “hide in plain sight”
  - Fall outside the Company’s “norms”

COORDINATE ANALYTICS

Relevant Data Sets

- Frequency Anomalies
- Invoice Anomalies
- Inconsistency in Vendor Data

High Value
### SAMPLE OF ANALYTICS PERFORMED

<table>
<thead>
<tr>
<th>Payment “Scoring” Analysis</th>
<th>Increased Frequency by Vendor Test</th>
<th>Sequential Invoice Analysis</th>
<th>Payments to Vendors at Outside the Country</th>
<th>Employee-Vendor Address Match</th>
<th>Employee-Vendor Name Match</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Beneficiary-Vendor Address Distance Match</td>
<td>Increase in Amount Analysis by Vendor</td>
<td>Invoice Date Prior to PO D+Y2:AK3ate</td>
<td>PO Item Desc Does Not Match Inv Item Desc</td>
<td>Vendors with Short Receipt Time</td>
<td>PO Details for Given Account</td>
</tr>
</tbody>
</table>

### PAYMENT SCORING ANALYTICS

[Graph showing data analysis results]
ONGOING BENEFITS INCLUDE...

- Timely identification of red flags
- Identify areas to fill gaps in the existing control environment
- Improve/augment the qualitative nature of data being captured
- Objective basis for quantifying system-wide risk
- Monitor compliance and ongoing risk of newly acquired businesses
- Uncover and eliminate high risk 3rd party relationships
- Evaluate training regimens
- Improve/augment existing IA protocols
- Assess overall compliance with the books & records provisions of the FCPA and other pertinent laws

QUESTIONS & RESOURCES
ANTI-CORRUPTION RESOURCES

ISO 37001 Anti-Bribery Management System Standard Information
➢ www.iso.org/iso/iso37001

ISO/IEC 17021-1:2015 - Conformity assessment - Requirements for bodies providing audit and certification of management systems
➢ Summary: http://www.iso.org/iso/news.htm?refid=Ref1972


CREATe RESOURCES

Free Downloads available at www.CREATe.org

Protection of Trade Secrets and Confidential Information:
• Cyber Risk: Navigating the Rising Tide of Cybersecurity Regulation
• CREATE-PwC Report/Framework
• “Reasonable Steps” to Protect Trade Secrets
• Protecting Trade Secrets with Supply Chain Partners
• Model Policies: Trade Secrets

IP Protection
• Protecting Intellectual Property through Enterprise Risk Management
• Model IP Policies
• Health and Safety Risks of Counterfeits in the Supply Chain

Anti-Corruption
• Compliance Guidelines
• Addressing Corruption Risk through Enterprise Risk Management (ERM)
• Why Anti-Corruption Programs Fail: Turning Policies into Practices
BDO ANTI-CORRUPTION RESOURCES

Insights:
New Rules Governing Data Flow Between the U.S. and the European Union
Continuous Monitoring: A Forensic Protocol for Mitigating Risk, Reducing Regulatory Exposure and Measuring the Efficacy of Compliance Programs

Archived Webinars:
Countering Corruption - What Does ISO 37001 Mean for Anti-Bribery Risk Management
The Board’s Role in Anti-Corruption
➢ https://www.bdo.com/events/the-boards-role-in-anti-corruption

BDO BOARD GOVERNANCE – WEBINARS

Upcoming Programs:
• Are You Ready to Comply with the New Lease Accounting Standard? - February 23, 2017
• Establishing an Effective Vendor Audit Program - February 28, 2017
• Quarterly Technical Update (Q1 2017) - April 11, 12, & 13, 2017
• Reducing the Burden of Sox Compliance - April 25, 2017

Recent Archived Webinars:
• Boards as Catalysts for Intrapreneurship and Innovation - February 2017
• Quarterly Technical Update (Q4 2016) - January 2017
• What’s on the Minds of Boards - November 2016
• Board Collaboration: Leveraging Communication Tools and Technology - October 2016
• Countering Corruption - What Does ISO 37001 Mean for Anti-Bribery Risk Management - September 2016
• Financial Instruments Update - Credit Losses and Recognition & Measurement - September 2016
• Quarterly Technical Update (Q2 2016) - July 2016
• FASB Makes Good on Simplifying GAAP for Stock Options and Tax Effects in ASU 2016-09 - June 2016
• M&A Execution: Planning with Post-Integration in Mind - May 2016
• The New Lease Accounting Standard - May 2016
• How is Your Board Positioned to Respond to Illegal Acts? - May 2016

For a complete listing of BDO events refer to: https://www.bdo.com/events
BDO BOARD GOVERNANCE – PUBLICATIONS

- Audit Committee Requirements Practice Aid
- Significant Accounting & Reporting Matters Q4 2016
- 2016 Audit Committee Round Up
- SEC Year in Review: Significant 2016 Developments
- Accounting Year in Review 2016
- Audit Committee Alert: Emphasis and Focus on Controls
- BDO 600 Executive Compensation - CEO and CFO Pay Practices
- SEC Requests Comments on Management, Certain Security Holders, and Corporate Governance Disclosure Requirements
- BDO Knows Cybersecurity Alert
- BDO Revenue Recognition Practice Aids
- Topic 606, Revenue from Contracts with Customers
- BDO’s Approach to Audit Quality
- SEC Proposes to Eliminate Outdated and Redundant Disclosure Requirements
- 2016 IPO Halftime Report
- SEC Proposes Amendments to Smaller Reporting Company Definition
- SEC Adopts Rules Requiring Resource Extraction Issuers to Disclose Payments to Governments
- PCAOB Issues Staff Guidance for Audit Firms Filing the New Form AP
- CAQ Questions on Non-GAAP Measures - A Tool for Audit Committees

For a complete listing of BDO publications, refer to: https://www.bdo.com/insights/

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EVALUATION

We continually try and improve our programming and appreciate constructive feedback.

Following the program, we will be sending out a thank you e-mail that contains a link to a brief evaluation.

Thank you in advance for your participation!

CONCLUSION

THANK YOU FOR YOUR PARTICIPATION!

Certificate Availability - If you participated the entire time and responded to at least 75% of the polling questions, click the Participation tab to access the Print Certificate button.

Please exit the interface by clicking the red “X” in the upper right hand corner of your screen.
Leslie Benton is the Vice President of Advocacy and Stakeholder Engagement of CREATE.org and she is responsible for leading the organization’s anti-corruption compliance work with companies and their third party partners around the world. Ms. Benton is a former Senior Vice President of Levick Strategic Communications, where she led the anti-corruption and compliance communications practice. Previously, she was the Senior Policy Director for the U.S. chapter of Transparency International, where she spearheaded the chapter’s outreach to the U.S. Government, the G8 and G20, international institutions, multilateral development banks and the private sector.

A lawyer by training, Ms. Benton is widely recognized for her experience in navigating the complex legal and regulatory landscape for NGOs and Fortune 500 companies in addition to her expertise in corporate compliance and governance, anti-corruption reform, and trade policy. She has also practiced law with Hogan & Hartson, LLP in Washington, D.C. and is the Vice Chair, Anti-Corruption Committee of the American Bar Association’s Section of International Law.

Ms. Benton is one of the ISO 37001 Anti-Bribery Management Systems drafters as a member of the U.S. Technical Advisory Group to the ISO committee developing ISO 37001. Ms. Benton received her Master of Laws from Harvard Law School and her J.D. from the Emory University School of Law.
BIOGRAPHY

Nina Gross is an attorney and leads BDO’s Global Forensics practice having 30 years of forensic accounting, investigation and consulting experience working with multinational organizations and their counsel. Gross has significant experience assisting clients in responding to sensitive investigative matters, as well as advising organizations on compliance, due diligence and anti-corruption programs designed to deter and prevent the recurrence of fraud.

Gross has developed internal anti-corruption and Foreign Corrupt Practices Act (FCPA) compliance programs, including model audit guidelines, risk assessment protocols and internal audit training and educational programs. She has led numerous international investigations related to alleged violations of the FCPA and conducted third party due diligence. In addition, Gross advises clients on asset management and securities enforcement matters.

Prior to joining BDO, she was a leader in Deloitte’s Financial Advisory Services FCPA consulting group and established its Global Anti-Corruption Training Academy. She also served as Director of the Office of Legislative Affairs at the Securities & Exchange Commission.

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Jeff Harfenist, co-leads BDO’s anti-corruption practice and leads BDO Consulting’s Southwest Global Forensics practice. He has more than 30 years of forensic accounting experience managing teams on some of the most high-profile investigations in U.S. history, including Tyco, Enron and AIG. Advising multinational organizations and their counsel, Mr. Harfenist has extensive experience leading domestic and international engagements for public and private organizations across numerous industries.

He focuses on fraud-related matters, including alleged violations of the FCPA, other anti-corruption statutes, kickbacks, embezzlement, Ponzi schemes, financial statement fraud, M&A anti-corruption due diligence and joint venture audits. Mr. Harfenist guides organizations on compliance and due diligence best practices, risk assessments, and assists in developing and implementing anti-corruption and anti-fraud compliance programs and continual testing and monitoring of such. He is experienced in conducting internal investigations in response to inquiries by the Department of Justice and SEC.

Skilled in implementing systems designed to detect fraud and mitigate risk, Mr. Harfenist is adept at utilizing forensic tools to identify anomalous transactions and high-risk relationships. He is experienced in large data sets, including matters with more than 50 million documents.

Mr. Harfenist presents on international fraud-related matters, is published and presents on managing fraud risk, including FCPA, compliance, monitoring, electronic databases, risk assessments, etc.
THANK YOU!