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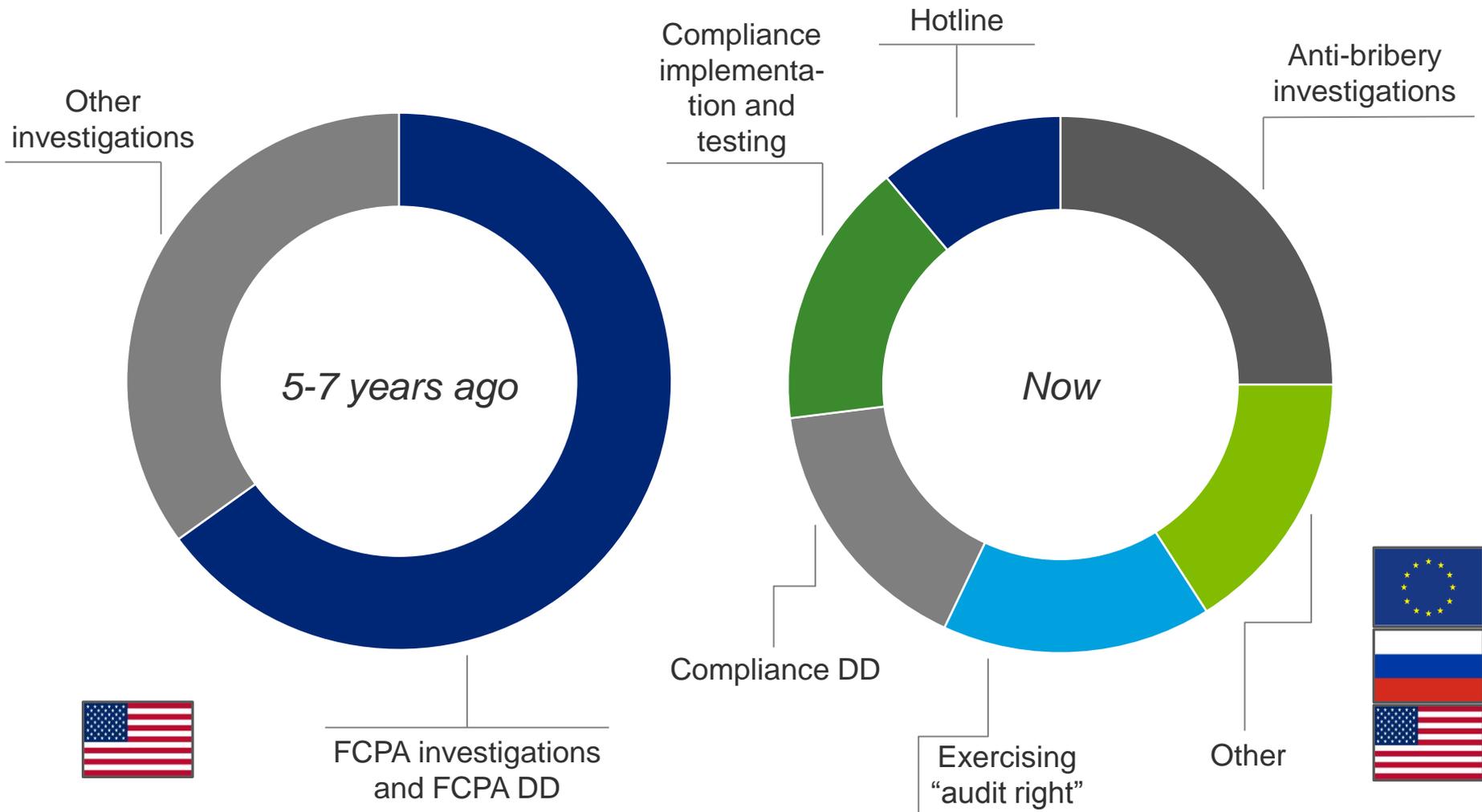
# Managing Corruption Risks in Russia

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# Managing Corruption Risks in Russia

## Clients' requests



# Managing Corruption Risks in Russia

## Changes in Business Environment

### 5-7 years ago

Roll out of policies communicated from the HQ (no adaptation, communication and training);

Infrequent internal audit: audit program developed abroad, reviews by expatriates (no knowledge of local specifics);

Poor public domain info;

Lack of compliance awareness;

No compliance specialists at the market;

No local regulation;

No/limited culture of exercising “right to audit”;

Hotline in English (if any);

Significant number of high risk banking institutions.

### Now

Policies developed in the CIS with assistance of local compliance experts;

Local internal audit teams supported by local compliance experts;

Improved public domain information and trend goes on;

Significant number of compliance events and other informative resources;

A number of compliance communities;

Enhanced local regulation;

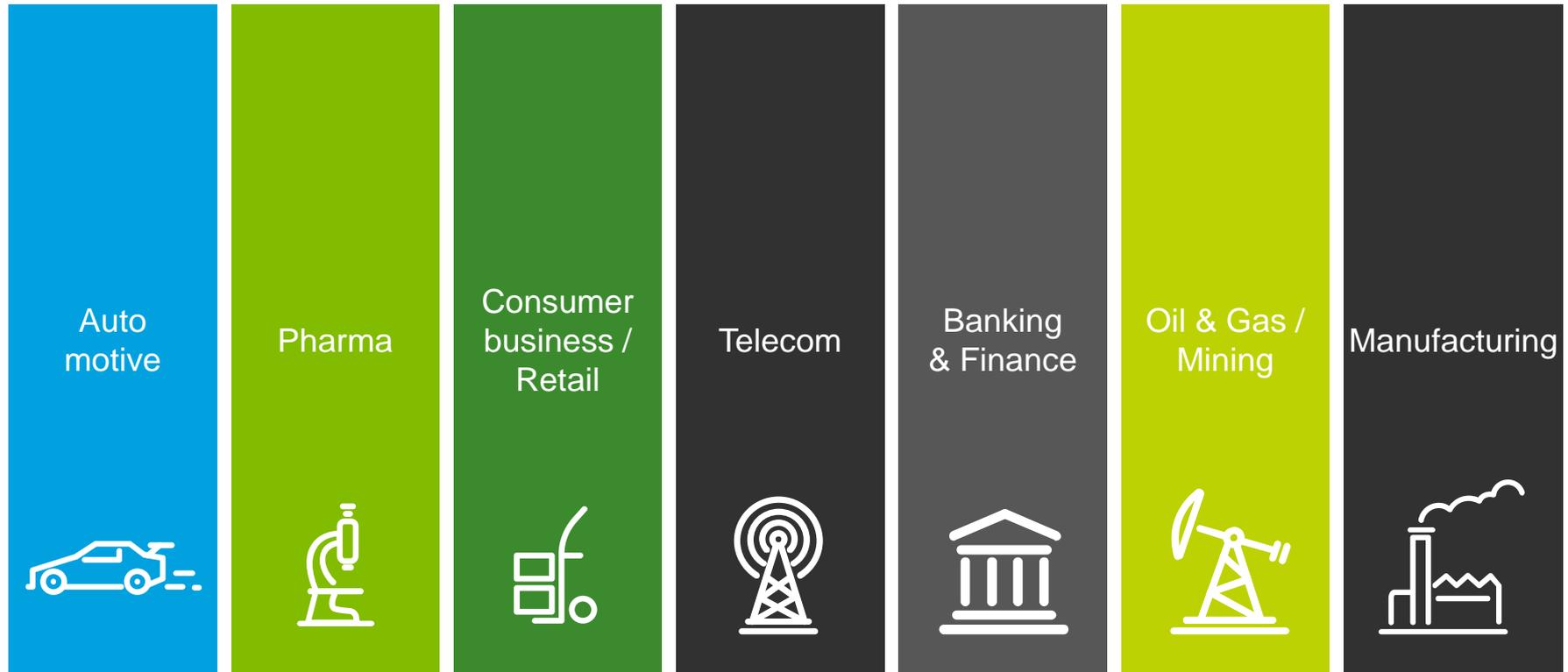
Improved practice of exercising “right to audit”;

Hotline in local language;

Significantly decreased number of high risk banks.

# Managing Corruption Risks in Russia

## Industry breakdown



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## Typical schemes

### Procurement

- Fictitious goods and services;
- Inflated prices and kick-backs;
- Unnecessary intermediaries;
- Affiliated companies;
- Fictitious tenders or tailored tender requirements.

### Construction

- Fictitious tenders, services;
- Unnecessary materials included in the costs;
- Inflated prices and volumes;
- Use of internal resources;
- Related project designer, technical supervisor and general contractor.

### Sales

- Unfair bonuses and rebates;
- Fictitious sales and bad debt accounts receivables;
- Parallel business;
- Related sales agents;
- Kick-backs.

### Payroll

- Ghost employees;
- Unfair inflated bonus for cash conversion purposes;
- “Protégé” employees.

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## Typical Observations

- Lack of country risk based approach by the HQ
- Limited local budget for compliance program implementation or adoption and further testing
- Lack of staff with local experience and knowledge in internal audit team or formal approach to testing based on standard check lists
- Lack of independence of local Compliance & internal audit manager (risk of collusion with local management)
- Lack of escalation process (information stays with the local level)
- Insufficient independence review of compliance & internal control system

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## Recommendations

The right “Tone at the top”

Screening of senior management (at least) as part of recruitment process

Proper policies and procedures, incl. KYC procedures

Conflict of interest declaration

Proper reporting lines for Internal Audit and Compliance functions (independence from senior executives)

Ongoing monitoring by in-house compliance / IA specialists

Independent compliance audits on a regular basis

Effective hotline

# Contacts



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