



Bribery Risk Assessment Procedure

**KINERGY ADVANCEMENT BERHAD**

[199701005009 (420505-H)]

Formerly known as Kejuruteraan Asastera Berhad
KAB Group of Companies

Powering A Sustainable Tomorrow

ISO Ref No:
KAGC-QP-ABMS-01

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00**BRIBERY RISK ASSESSMENT PROCEDURE****1.0 Introduction:**

This procedure outlines the steps for conducting a bribery risk assessment based on different locations/regions within the organization's business units. The assessment aims to identify corruption risks, evaluate their potential impact, assess inherent and control risks, and determine residual risk levels. The procedure also outlines mitigation measures to reduce bribery risks.

2.0 Scope:

This procedure applies to all business units and locations/regions within the organization where bribery risks need to be assessed and managed.

3.0 Bribery Risk Assessment:

- a. **Identify Business Unit and Location/Region:** Specify the business unit and location/region for which the bribery risk assessment will be conducted.
- b. **Corruption Risk Factors:** Evaluate corruption risk factors, including local regulations, business practices, political stability, historical incidents, and other pertinent considerations. The table below provides examples, but please note that the list is not exhaustive and there may be additional factors beyond those mentioned in the table below:

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| Risk Factors | Description | Guidance |
|---|---|---|
| Local Regulations and Legal Environment | Evaluate the local laws, regulations, and enforcement mechanisms related to bribery and corruption. Consider factors such as the strength of anti-corruption legislation, enforcement agencies, and penalties for non-compliance. | Research and analyze the local legal framework to understand how bribery and corruption are addressed. Assess whether there are gaps or weaknesses in the legal system that could contribute to corruption risks. |
| Business Practices and Culture | Examine the prevailing business practices and cultural norms in the specific location/region. Some cultures may have a higher tolerance for certain forms of bribery or unethical behavior. | Conduct cultural sensitivity training and engage with local experts to better understand the local business culture. Identify any practices that might facilitate or encourage corrupt behavior. |

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| Political and Economic Stability | Consider the political and economic stability of the location/region. Instability and uncertainty can increase the likelihood of bribery and corrupt activities. | Evaluate the current political climate, government changes, and economic challenges that might create an environment conducive to corruption. Monitor political developments that could impact the organization's operations. |
| Historical Incidents and Corruption Schemes | Review past instances of bribery, corruption, and related scandals in the area. Understand the modus operandi of previous corruption schemes. | Research historical cases of corruption within the location/region to identify common patterns, tactics, and vulnerabilities. Use this knowledge to proactively address similar risks. |
| Economic and Financial Indicators | Analyze economic indicators such as income levels, poverty rates, and economic inequality. These factors can influence the motivation for engaging in corrupt practices. | Assess economic and financial data to understand the socioeconomic context. Identify if there are disparities that might incentivize individuals to engage in bribery for personal gain. |

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| Relationships with Public Officials and Government | Evaluate the organization's interactions with government entities and public officials in the location/region. Close relationships could lead to favoritism and potential corruption. | Map out the organization's interactions with government officials, including permits, licenses, and approvals. Establish transparent protocols for engaging with public officials and avoid situations that could lead to undue influence. |
| Transparency and Accountability | Consider the level of transparency and accountability in government operations, business transactions, and financial reporting. | Assess whether public processes and transactions are transparent, and whether mechanisms for reporting corruption are effective. Support initiatives that promote transparency and hold individuals accountable. |

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|-----------------------|---|---|
| Sector-specific Risks | Different industries may have specific corruption risks. For example, sectors dealing with construction, natural resources, or public procurement could be more susceptible to corrupt practices. | Identify sector-specific vulnerabilities and engage with industry associations or experts to understand the unique bribery risks associated with the location/region. |
|-----------------------|---|---|

- c. **Corruption Risk Identification:** Identify potential corruption risks, including types of corruption schemes. The table below provides examples, but please note that the list is not exhaustive and there may be additional factors beyond those mentioned in the table below:

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| Corruption Risks | Corruption Scheme |
|---------------------------------|---|
| Bribery and Extortion | <ol style="list-style-type: none">1. Collusive Bidding: Companies conspire to artificially inflate bid prices, ensuring a predetermined company wins the contract and then pays officials a share of the excess.2. Quota Bribery: Individuals pay bribes to officials to exceed quotas or quotas are fraudulently manipulated.3. Influence Peddling: Officials solicit bribes in exchange for using their4. influence to secure business advantages. |
| Kickbacks and Procurement Fraud | <ol style="list-style-type: none">1. Price Fixing: Suppliers conspire to set prices artificially high, ensuring larger profits and kickbacks to involved parties.2. Subcontracting Scam: A contractor inflates costs and awards subcontracting to a company they secretly own, profiting from both ends.3. Unjustified Change Orders: Officials approve unnecessary change orders and receive kickbacks from contractors. |

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00**BRIBERY RISK ASSESSMENT PROCEDURE****Embezzlement and Misappropriation**

1. Ghost Assets: Assets are recorded, but they do not exist, and funds are embezzled through their purchase or maintenance.
2. Expense Padding: Employees exaggerate expenses and pocket the excess reimbursement.
3. Payroll Fraud: Employees manipulate payroll records to overpay themselves and divert funds.

Nepotism and Favoritism

1. Unearned Promotions: Unqualified family members or friends are promoted, disregarding merit.
2. Supplier Favoritism: Contracts are awarded to vendors based on personal relationships rather than competitive bids.
3. Insider Recruitment: Friends or relatives are hired without proper qualifications or scrutiny.

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00**BRIBERY RISK ASSESSMENT PROCEDURE****Facilitation Payments and Small-scale Bribes**

1. **Regulatory Shortcuts:** Officials accept bribes to overlook safety regulations, allowing companies to bypass costly compliance.
2. **Expedited Licensing:** Small bribes expedite the approval of licenses, permits, or regulatory processes.
3. **Customs Evasion:** Customs officials accept bribes to allow the smuggling of goods without proper documentation.

Fraudulent Financial Reporting

1. **Off-Balance Sheet Manipulation:** Companies hide debt or assets off the balance sheet to present a stronger financial position.
2. **Cookie Jar Reserves:** Companies overstate expenses in profitable years, building reserves for future manipulation.
3. **Fictitious Revenue Recognition:** Revenue is recorded for fictitious sales transactions to inflate financial results.

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00**BRIBERY RISK ASSESSMENT PROCEDURE****Conflicts of Interest**

1. **Self-Dealing:** Decision-makers benefit personally from contracts or transactions with the organization.
2. **Insider Trading:** Employees use non-public information to trade stocks and gain an unfair advantage.
3. **Preferential Investments:** Managers direct investments to benefit themselves rather than the organization.

Lax Due Diligence

1. **Concealed Beneficial Ownership:** Organizations enter partnerships without proper due diligence, allowing hidden owners with corrupt intent.
2. **Fraudulent Charities:** Charitable donations are made without verifying the recipient's legitimacy, enabling diversion of funds.
3. **Unverified Suppliers:** Inadequate due diligence leads to partnerships with suppliers engaging in corrupt practices.



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4.0 Inherent Risk Evaluation:

- a. **Probability:** This factor assesses the likelihood of the bribery risk occurring. Determine the likelihood of bribery occurring within your specific context or location/region. Assign a value of High, Medium, or Low based on your assessment.

| Probability | Description |
|-------------|--|
| High | <p>There is a strong likelihood that bribery could occur frequently or is expected to happen in the near future. Bribery is expected to occur frequently or regularly based on historical data, industry knowledge, and the operational context.</p> <p>Examples:</p> <p>In an industry known for its corrupt practices, bribery incidents are frequent, with multiple cases reported annually across various organizations.</p> |
| Medium | <p>Bribery could occur occasionally, but it's not a common or expected event. Bribery is anticipated to occur occasionally, with a moderate likelihood based on industry trends and the organization's interactions.</p> <p>Examples:</p> <p>Bribery incidents are sporadic, occurring every few years and often involving specific projects or interactions.</p> |



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Low

The chances of bribery occurring are minimal, and it's unlikely to happen within the foreseeable future. Bribery is unlikely to occur, with isolated or rare instances based on a strong regulatory environment and minimal historical occurrences.

Examples:

In a region with strict anti-corruption laws and active enforcement, bribery incidents are extremely rare, with only one reported case in the past decade.

- b. **Potential Impact:** This factor evaluates the potential consequences if the bribery risk materializes. Evaluate the potential impact of bribery on your organization. This impact could include financial losses, reputation damage, legal consequences, etc. Assign a value of High, Medium, or Low.

| Impact | Description |
|--------|--|
| High | <p>Bribery would result in severe and extensive consequences, including significant and severe financial losses, major damage to the organization's reputation, significant legal actions, and widespread operational disruptions.</p> <p>Examples:</p> <p>A bribery incident involving key executives would lead to a substantial decline in stock value, massive lawsuits, regulatory penalties, and the potential bankruptcy of the organization.</p> |



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| Medium | <p>Bribery would lead to noticeable adverse effects, impacting the organization's finances, reputation, or operations to a moderate extent.</p> <p>Examples:</p> <p>A bribery incident involving mid-level managers could result in financial penalties, reputational damage within the industry, and some disruptions to ongoing projects.</p> |
| Low | <p>The impact of bribery, if it occurs, would be limited and manageable, resulting in minor financial implications or minimal operational disruptions.</p> <p>Examples:</p> <p>A low-level employee accepting a bribe to expedite a routine administrative process would have minimal financial impact and only a minor reputational setback.</p> |

- c. **Inherent Risk:** This factor is the product of Probability and Potential Impact, indicating the initial level of risk before considering controls. Multiply the Probability value by the Potential Impact value to get the Inherent Risk level. This gives you an initial sense of the risk's severity before implementing any controls.

| | | Impact | | |
|-------------|--------|--------------------|----------------------|----------------------|
| | | High | Medium | Low |
| Probability | High | High Inherent Risk | High Inherent Risk | Medium Inherent Risk |
| | Medium | High Inherent Risk | Medium Inherent Risk | Low Inherent Risk |
| | Low | High Inherent Risk | Medium Inherent Risk | Low Inherent Risk |



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| Inherent Risk | Description |
|----------------------|--|
| High Inherent Risk | A high inherent risk level demands immediate and robust attention. Strong preventive measures and controls should be established to mitigate the risk. |
| Medium Inherent Risk | A medium inherent risk level indicates a moderate level of concern. Suitable controls and measures are needed to manage and reduce the risk. |
| Low Inherent Risk | A low inherent risk level implies a relatively lower level of concern. Basic controls and ongoing monitoring are likely sufficient to manage the risk. |

- d. **Anti-Corruption Controls:** Evaluate existing anti-corruption controls relevant to the identified risks.

5.0 Residual Risk Evaluation:

- a. **Control Risk Rating:** Estimate how well your controls will mitigate the risk, represented as a percentage (e.g., 100%, 75%, 50%, 25%).

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| Control Risk Rating | |
|---------------------|---|
| 100% | <p>Controls are highly effective in preventing or mitigating the identified risk. They are robust, comprehensive, and consistently enforced. The likelihood of the risk occurring is significantly reduced, and the impact is minimized to a great extent. There is a high level of confidence that controls will prevent the risk from materializing or greatly limit its consequences.</p> <p>Examples:</p> <p>In a high-risk region where bribery is prevalent, the organization has implemented a comprehensive anti-corruption program. This program includes stringent due diligence for third parties, regular employee training, a confidential reporting mechanism, and ongoing monitoring. As a result, instances of bribery have become extremely rare, and when they do occur, they are swiftly detected and addressed.</p> |

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75%

Controls are moderately effective in reducing the likelihood and impact of the identified risk. While they provide a substantial level of mitigation, there may be some scenarios where the risk could still occur, but the overall impact is reduced. There is reasonable confidence that controls will prevent most instances of the risk, but some residual risk remain

Examples:

Your organization operates in a moderately risky environment, where occasional incidents of bribery have been observed. You have established a code of conduct that explicitly prohibits bribery, conducted anti-corruption training for employees, and implemented due diligence for high-risk third parties. While these controls have significantly reduced the likelihood of bribery, there have been a few isolated cases where employees attempted to engage in corrupt activities.

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50%

Controls have a moderate impact on reducing the risk. They provide some level of mitigation, but there are significant gaps or limitations in their effectiveness. The likelihood of the risk occurring is still considerable, and the impact could vary from moderate to significant. Additional measures are needed to achieve a more acceptable level of risk.

Examples:

In a region with a medium bribery risk, your organization has implemented basic anti-corruption measures such as a code of conduct and periodic training. However, due to limited resources and oversight, there have been instances where employees engaged in bribery, and a few cases went undetected. While the controls have some impact in reducing the risk, there are gaps in their effectiveness.

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25%

Controls have limited effectiveness in mitigating the identified risk. They may provide only minor reduction in likelihood or impact. The risk is likely to occur with significant frequency and potentially result in considerable consequences. Urgent action is required to strengthen controls and address vulnerabilities that contribute to the risk.

Examples:

Your organization operates in a high-risk jurisdiction where bribery is common. Although you have a code of conduct in place, limited training, and minimal due diligence, incidents of bribery are frequent and often go unnoticed. The controls in place have limited impact, and the risk of bribery remains significant.



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- b. **Residual Risk Calculation:** Calculate the residual risk by multiplying the inherent risk and control risk ratings.

| | Control Risk Rating= 100% | Control Risk Rating= 75% | Control Risk Rating= 50% | Control Risk Rating= 25% |
|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| High Inherent Risk | Low Residual Risk | Medium Residual Risk | High Residual Risk | High Residual Risk |
| Medium Inherent Risk | Low Residual Risk | Medium Residual Risk | Medium Residual Risk | High Residual Risk |
| Low Inherent Risk | Low Residual Risk | Low Residual Risk | Medium Residual Risk | Medium Residual Risk |

| Residual Risk | Description |
|--------------------------|---|
| High Residual Risk | Controls have limited effectiveness in reducing the risk. Likelihood and potential impact of bribery incidents remain significant. Immediate action needed. Reevaluate control strategies and implement comprehensive measures. Enhancing controls is required. |
| Medium Residual Risk | Controls provide moderate mitigation, but there is room for improvement. Likelihood and potential impact of bribery incidents are reduced, but certain scenarios could still result in negative outcomes. Consider enhancing controls. |
| Low Residual Risk | Controls are highly effective in mitigating the risk. Likelihood and potential impact of bribery incidents are minimal. Organization is well-prepared to prevent and respond to rare occurrences. Regular monitoring required; enhancing controls is optional. |

- c. **Control Enhancement:** Develop and implement additional or enhanced anti-corruption controls to mitigate identified risks.

6.0 Documentation and Reporting:

- a. **Record Keeping:** Maintain records of the bribery risk assessment process, including identified risks, control measures, and residual risk ratings.
- b. **Reporting:** Provide regular reports to relevant stakeholders, including management, on the status of bribery risk assessments and mitigation efforts.

7.0 Review and Continuous Improvement:

- a. **Periodic Review:** Conduct periodic reviews (minimum once a year) of bribery risk assessments for different locations/regions to ensure accuracy and relevance.
- b. **Lessons Learned:** Use insights gained from the assessment process to enhance the organization's anti-bribery management system and improve risk mitigation strategies.

8.0 Training and Awareness:

- a. Ensure that employees and stakeholders involved in bribery risk assessment and mitigation are adequately trained and aware of the organization's procedures and expectations.

9.0 Approval and Authorization:

- a. This bribery risk assessment is to be approved by Head of Department and shall be communicated to relevant personnel.