The Bribery Act represents a significant change to UK law in this area of business and commerce. Companies need to review how they behave to avoid being caught out. The stakes are high and the time to act is now.

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Will you act now or pay later?
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Executive summary

The Bribery Act represents a significant change to UK laws in this area of business and commerce. It seeks to enhance the UK’s anti-bribery legislation which was seen as antiquated and fragmented and had been subject to serious criticism internationally.

The Act replaces previous offences with general, active and passive bribery offences and a specific offence relating to the bribery of foreign public officials (all of which are applicable to both individuals and companies). It also introduces a specific corporate offence of failing to prevent bribery.

The specific corporate offence is designed to make companies and other corporate bodies responsible for bribery committed on their behalf, a familiar concept in the US Foreign Corrupt Practices Act (FCPA). The key potential liability relates to failure to prevent active bribery for or on behalf of the corporate body by, for example, its employees, agents or subsidiaries. A defence to the failure to prevent offence exists if it can be shown that “adequate procedures” were in place. The Act does not define “adequate procedures”, but it does contain a clause whereby the Secretary of State must publish “guidance about commercial organisations preventing bribery”. This guidance is indicative, setting out principles and illustrative good practice examples rather than prescriptive standards. A final version of the guidance is expected in early 2011.

Prior to this, existing US, OECD1 (Organisation for Economic Co-operation and Development) and related UK guidance gives a good indication of the procedures and processes companies will need to have in place.

Importantly, there is a clear message from Government that “adequate procedures” are not intended as a safe harbour. Whether adequate procedures are in place will ultimately be a matter for the courts to determine based on the facts of a given case.

Board members must show leadership, with training provided throughout the organisation to raise anti-bribery awareness. Numerous functions need to be involved in developing, embedding and maintaining an anti-bribery programme, including legal, compliance, internal audit, HR and finance. Mechanisms to support staff, such as compliance helplines and whistleblowing facilities, need to be established. Moreover, the above items need to be demonstrated as working in practice when the Act comes into force in April 2011.

Organisations should not assume that the government and regulators will be deflected from enforcing the new legislation. Recent indications are that corporate and individual failures to take action to prevent bribery will meet a tough response. Notably, law enforcement and regulators are increasingly working together on crossborder investigations and proceedings.

This paper is not intended as a guide to the legal details of the Bribery Act, but as a prompt to encourage companies to take urgent and necessary action.

Why companies should act now

Although the UK has anti-bribery legislation in place, the Act represents a notable enhancement, particularly in the area of corporate liability. Many companies appear unaware of the full implications of the Act and unprepared to deal with the practical consequences.
Those most likely to have at least some of the procedures and processes in place are US Foreign Private Issuers, but these are in the minority among UK corporates. In a PwC poll of non-executive directors, heads of internal audit, heads of risk and other senior executives, 85% of respondents to the survey were from organisations that are not US listed and therefore have not had to face the full force of the FCPA, with its extensive anti-bribery and corruption requirements.

Some 75% of those surveyed said their boards or audit committees had not considered the implications of the Bribery Act for their businesses. Furthermore, 83% said that either their organisation had not yet started to prepare for the introduction of the legislation, or they did not know whether it had. Over half (53%) said their organisation did not carry out a regular anti-bribery assessment, while 28% did not know.

In our experience, establishing adequate processes and procedures for compliance with anti-bribery legislation that are effective in practice takes considerable time, commitment (from top management downwards) and resources. Companies need to be taking action now.

Small and Medium Enterprises (SMEs) may believe this legislation will not affect them. However, as the Government has been encouraging SMEs to participate in large overseas public tenders, some SMEs will face significant risk. SMEs are also likely to have less sophisticated compliance systems in place than larger companies.

Some may be wondering whether the Bribery Act will make much difference. The UK government is under considerable pressure to enforce the legislation. Transparency International’s 2010 Corruption Perceptions Index showed that the UK’s score had dropped from 7.7 in 2009 to 7.6 in 2010 adding fuel to concerns over the UK’s international reputation. Regulators are also showing intent, through words and actions, to take a tougher stance against bribery and corruption, and, as mentioned before, are cooperating and collaborating with each other to an increasing extent.

Richard Alderman, Director of the Serious Fraud Office (SFO), when giving evidence before the parliamentary Joint Committee which considered the Bribery Bill, said:

“Society is entitled to expect of the corporates these days that they have adequate anti-bribery processes and that those processes are carried out throughout the corporation. If there is a significant failure, then it is a board level failure.”

He also noted that the SFO had 17 ongoing investigations into bribery or corruption and was expecting to make more announcements during the year about their progress.

The recent past has seen a series of announcements concerning financial and other penalties levied by both the SFO and the Financial Services Authority on UK companies in relation to allegations of bribery and/or failure to maintain proper anti-bribery controls.

In some of these cases, the SFO has worked jointly with law enforcement bodies elsewhere, notably the US, in determining the scope of offences and the level of fines. The SFO has also sent out strong messages about a new approach to the investigation and prosecution of bribery allegations, with more emphasis on self-reporting and cooperation in investigations by corporates, and the threat that failure to self-report or to cooperate adequately will lead to heavier sanctions.

The level of fines and other financial penalties levied has been rising along with the general scale of activity on the part of the SFO and others in this area. The value of financial penalties in the UK remains at this stage low by comparison with those imposed by the SFO’s US counterparts, but the trend is discernibly upwards.

2 Results are based on 40 responses gathered via a paper survey from attendees at PwC Fraud Academy and NED events.
The Bribery Act represents a significant enhancement to current UK anti-bribery legislation.

Scope and application of the Act

For UK registered corporates, there are three potential offences:
- a general offence of offering or receiving bribes;
- a specific offence of bribing a foreign public official; and
- an offence of failing to prevent bribery on the corporate’s behalf.

Corporate entities which are not UK registered but which do business in the UK can also be charged with the offence of failing to prevent bribery on their behalf.

Individuals who are British citizens or ordinarily resident in the UK can be charged with the general offence of offering or receiving bribes, and with bribing a foreign public official. These offences – for corporates and individuals – apply regardless of where in the world the bribes are offered or received, and regardless of whether the bribery is direct or indirect via a subsidiary or third party.

Penalties
Corporate bodies found to have committed any bribery offence could face unlimited fines. In addition, they may be debarred from tendering for Government contracts, under Article 45 of the EU Public Sector Procurement Directive 2004.

Individuals could face a maximum 10 year prison sentence and/or an unlimited fine. This includes senior officers of companies held liable through their consent to or connivance with a general or foreign public official offence by their company.
Corporate action required

“Adequate is a subjective word. What is adequate for your organisation needs to be carefully addressed.”

Will Kenyon,
PwC Forensic Services Partner

“Adequate Procedures” defence
A defence to the corporate failure offence exists if it can be shown “adequate procedures” were in place at the time of the alleged bribery offence. The burden of proof (to a civil standard) rests with the organisation and procedures will need to be evidenced in practice. The involvement of the organisation’s top management in the failure will be taken into account when assessing the adequacy of the procedures in place.

The Government is obliged under the Act to publish guidance. The guidance will of necessity be indicative, setting out broad principles and illustrative good practice examples of adequate procedures rather than detailed and prescriptive standards. As discussed elsewhere, existing US and OECD guidance gives an indication of the procedures and processes companies will need to have in place.

The draft guidance focuses on six key areas, namely:
• Risk assessment
• Top level commitment
• Due diligence
• Clear, practical and accessible policies and procedures
• Effective implementation
• Monitoring and review

Given that significant parts of the Bribery Act were driven by and based on the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, various OECD documents are likely to give strong indications of the UK procedures required. Documents with particular relevance are the OECD Guidelines for Multinational Enterprises (Section VI – Combating Bribery) and OECD Business Approaches to Combating Corrupt Practices.

Further insights can be gained from the US Federal Sentencing Guidelines, which define for US courts dealing with FCPA cases an “Effective Compliance and Ethics Program”.

Corporate action required
Companies incorporated in or carrying on business in the United Kingdom need to act now. Companies will need to be prepared to show adequate anti-bribery procedures are in place and working in practice. Since a comprehensive anti-bribery programme can take considerable time to implement, companies should start to address any gaps in their programme immediately.

The steps to follow and the likely work involved will vary depending on whether the organisation is already prepared to comply with the FCPA (e.g. Foreign Private Issuers) or equivalent.
For these companies, the main immediate action is to review the scope and effectiveness of their existing anti-bribery programme and remediate any gaps. Due to differences in the law, full FCPA compliance does not necessarily mean compliance with the Bribery Act.

A comprehensive anti-bribery programme
How can companies determine the components of an anti-bribery programme needed to comply with the UK legislation?
As stated above, UK Government guidance will be developed to accompany the new anti-bribery legislation and help companies comply.
A draft of this guidance was published in September 2010 and is expected to be finalised in early 2011.
The SFO has published the “Approach Of The Serious Fraud Office To Dealing With Overseas Corruption”. This is an important statement by the SFO to the corporate world, making clear the SFO’s focus on anti-corruption enforcement (under the new Head of Anti-Corruption, with a target headcount of 100 staff). It also sets out the SFO’s expectations and guidance on corporate self-reporting (an important area for corporates to be prepared for) and, importantly, the basis on which the SFO will judge the adequacy of the corporate procedures to mitigate corruption risks.

Other relevant sources of guidance include national legislation and practice in other OECD Convention signatory countries. Meanwhile, a number of industry specific standards and codes have been developed for sectors that have seen enforcement activity in this area, such as pharmaceuticals and life sciences and aerospace and defence. Other insights can be gained from various FSA documents and pronouncements, such as its Aon ruling, which sets out perceived weaknesses. The FSA has also stated that it is collating examples of good practice across the financial services sector. The recommendations made in the 2008 Woolf Committee Report into BAE Systems provide further useful reference points.

Drawing on these various sources and based on experience gained working with companies, PwC has developed a framework for a typical anti-bribery compliance programme, as illustrated above. The PwC framework is a guide to some of the likely requirements for compliance with the Bribery Act.
Organisations that already need to comply with the FCPA may find they have some elements already in place, but this should not be assumed.

**Gain board commitment**
The board must indicate the importance of the antibribery programme by committing adequate qualified resources to its development. Board members should undergo training themselves to ensure they have appropriate knowledge of the anti-bribery legislation and its implications, and to set the ‘tone from the top’. The Board should devote appropriate time to anti-bribery compliance issues and to monitoring the effectiveness of the organisation’s anti-bribery programmes and controls.

**Conduct a comprehensive risk assessment**
Existing guidelines call for organisations to conduct a global assessment to identify areas of highest risk in terms of potential exposure to bribery and corruption. These are the areas that will need to be addressed first. Note that risk is not necessarily associated with the size of operations in a particular jurisdiction. Small operations in countries with high perceived levels of corruption are likely to be high risk.
The risk assessment should examine a variety of factors including: the high risk locations in which the company operates; whether the business model includes large scale projects, tenders or long term contracts; the degree to which intermediaries are used to do business; whether the company has interactions with government officials; if a new business acquisition or joint venture is planned; and the gifts, hospitality and entertainment activities employed.

These are some of the most vulnerable areas for businesses which need to be carefully considered and then prioritised. This list is by no means exhaustive.

**Assessment of existing anti-bribery programmes**
The assessment of the adequacy of an existing anti-bribery programme should be conducted by experienced individuals who are independent of those carrying out the procedures and processes, such as suitably qualified and experienced members of the internal audit team. The review should be commissioned by the board or one of its committees, such as the audit committee or a separate compliance or risk committee. The final report should be addressed directly to that committee.

Note that internal audit should not review any areas of the programme for which it is responsible itself. Independent external support may be required for any such elements. Note too that committee and board members need to be sufficiently knowledgeable of the anti-bribery legislation and compliance procedures. Specialist training may be required to ensure they are equipped to carry out their anti-bribery responsibilities adequately.

Where any areas of weakness or gaps in the anti-bribery programme are identified, corrective action must be taken. The most serious issues should be addressed first. Any work to improve the anti-bribery procedures and processes should not be performed by internal audit, which needs to retain its independence in order to conduct a later assessment of the adequacy of the work.

*Even isolated gaps in compliance, depending on their nature, can take significant time to address, including operational implementation.*
Developing and embedding an anti-bribery programme

Some companies may find they do not currently have a systematic anti-bribery programme in place. For these organisations, considerable work may be required in order to achieve compliance with the incoming UK legislation. Key steps in the process for developing an anti-bribery programme are summarised below.

Develop an anti-bribery implementation plan

Prioritising high risk areas is essential because implementing a comprehensive anti-bribery programme could take a considerable period of time. The implementation plan should be set out in sufficient detail to be able to demonstrate to a regulator or court that the organisation is committed to establishing its entire anti-bribery programme. The board needs to allocate sufficient budget and resources in terms of internal and external expertise.

Establish governance structures

The anti-bribery programme should involve a number of functions who act as corporate gatekeepers. These could include a specific compliance function (in larger organisations), legal department, internal audit, finance and HR. Their roles and relationships in terms of the anti-bribery programme need to be clearly specified.

One individual needs to be given specific responsibility for the anti-bribery programme. This individual should be designated as the chief compliance officer. The individual should ideally have not only sufficient knowledge and expertise in anti-bribery compliance, but also experience in running programme implementations.

Oversight arrangements also need to be established, for example, involving a non-executive committee with a compliance remit – this may be the audit committee, the risk committee, or a specific compliance committee. The committee’s membership and powers need to be defined, together with its relationships with other non-executive committees, the board and staff who report to it.
Establish a values and rules hierarchy

If the organisation does not already have a code of ethics or code of conduct, this needs to be created. Such codes should address bribery and corruption, as well as other issues related to general business ethics. Existing codes need to be reviewed and upgraded as necessary to ensure that anti-bribery and corruption aspects are adequately covered. All codes should have board-level approval and reflect the core values the organisation seeks to operate by.

Codes are supported by policies which give more detailed statements designed to give management and staff specific guidance to ensure the aspirations of the code of conduct are related directly to the operational business. There will typically be a number of policies relevant to anti-bribery compliance, including:

- Third party intermediaries and other business partners
- Gifts, hospitality and entertaining
- Facilitation payments
- Political and charitable donations and lobbying activities
- Sponsorships
- Conflicts of interest
- Bank accounts, cash and petty cash.

In our view it is not necessary or realistic that codes and policies should attempt to address every possible situation in which a potential bribe or other corrupt act could occur. It is preferable to develop and embed clear values which employees then apply to guide ethical decision-making in any specific situation they may face.

Policies are supported by operating procedures and internal controls. These anti-bribery procedures and controls need to be embedded in the company’s regular operational framework, including where applicable the internal controls over the financial reporting framework. Implementing these procedures and controls – and testing their effectiveness – throughout all business locations could involve substantial work.

Embed the anti-bribery framework in the business

Embedding the anti-bribery framework begins with the communication of the code of ethics or conduct, the company’s core values and its supporting policies. Employees need training to help them understand how bribery and corruption can arise and to identify situations when they and the business may be at risk. Face-to-face training is necessary to supplement e-learning modules for people in critical positions because of the often subjective nature of the material, and training must be tailored to reflect realistic dilemmas staff may face. Individuals do not all need to be expert in the legal detail, but to be able to spot a possible issue and know how to go about making the right decision, including where to go for help and advice. This advice should be provided through an appropriate decision support mechanism, such as a compliance helpline (distinct from whistleblowing facilities).

Provide appropriate whistleblower facilities

Best practice guidelines for countering bribery and corruption typically require provision of whistleblowing facilities. This involves establishing a mechanism whereby individuals can report any suspicions of corrupt behaviour confidentially and, if they wish, anonymously. Companies with international operations must ensure the facility is available to individuals in appropriate languages and time zones. The processes need to be robust to instil employee confidence in them. They should also establish how matters should be addressed, including their escalation to senior levels, avoidance of actual and perceived conflicts of interest, and follow-up and investigation processes.

Whistleblowing facilities should be recognised as an important source of information for the company in its anti-bribery programme, both to identify individual issues and to enhance the anti-bribery programme.
Review disciplinary and other HR procedures

Companies need to ensure they have appropriate disciplinary procedures and processes in place and that these are always followed correctly. Employees themselves need to understand how the disciplinary process works.

HR should be conducting background checks on potential employees, particularly those in senior or sensitive positions, looking out for evidence of involvement in illegal activity or other question marks regarding integrity.

Performance management systems should be reviewed to ensure they support anti-bribery policies and aims, in particular, appropriate and specific compliance-related performance targets should be set in management objectives (including board members) and then assessed as part of the variable remuneration decision process.

When a large organisation engages smaller third parties, it should take steps to support those smaller business partners in achieving compliance with anti-bribery laws and regulations. This support could include, for example, providing training in the organisation’s expectations of what constitutes compliant behaviour. Third parties should also be given details of how to make use of whistleblower facilities, so that they can report any behaviour that raises suspicions of corruption.

Ensure adequacy of monitoring and reporting procedures

Where employees identify queries relating to anti-bribery and corruption legislation, resolution of those issues should be documented. Given there will be many grey areas, clear documentation is necessary to demonstrate to regulators why a particular decision was reached.

Monitoring should also cover other aspects of the anti-bribery framework, such as the coverage of personnel who have completed anti-bribery training, the gifts and entertainment provided by the company, or performance in large-scale tenders. Clear review responsibilities should be established, whether by line management or board committees, and formal guidance as to when issues need to be escalated to the highest levels.

Committing time and resources

The need for organisations to commit sufficient time and resources to the development and embedding of an appropriate anti-bribery programme has already been highlighted, but it is worth emphasising again.

Experience shows that, particularly for organisations operating in multiple jurisdictions, the work involved in implementing an anti-bribery framework across all areas of the business – and reviewing its effectiveness – is considerable. It can take several years to complete the programme, and involve many hours of internal and external expert time.
Appendix
Appendix: Provisions of the Bribery Act

**General bribery offences**

The general bribery offences cover:

- Active bribery (offering or paying); and
- Passive bribery (soliciting or receiving). They are applicable to individuals and corporate bodies, and include bribery conducted through a third party intermediary. To be an offence the bribe must be associated with an intent to “improperly perform” or an inducement to “improperly perform” certain “functions and activities”.

- “Improperly perform” means an action or omission in breach of an expectation of good faith, impartiality, or when in a position of trust.
- “Functions and activities” include those in the public sector, in commerce and business, in the course of employment, and conducted by or on behalf of a body corporate. They do not need to be related to or based in the UK.

**Bribing of a foreign public official**

The Act contains a separate offence of bribing a foreign public official. This has been drawn up based on the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

The offence covers only active bribery (offering or paying). However, like the general bribery offences, it is applicable to both individuals and corporate bodies.

To be an offence the bribe must be intended to obtain or retain a business advantage by influencing the recipient of the bribe in their function(s) as a public official. A financial or other advantage will constitute a bribe if it is not legitimately due to the foreign public official. The judgement of what is legitimately due is based on the local written law (which would include statutes, regulations and case law, but exclude local custom or tolerance).

The definition of a “foreign public official” is drawn from the OECD Convention. It is a wide definition, including legislative, administrative and judicial functions, the exercise of a public function for countries, public agencies and public enterprises, and officials and agents of public international organisations.

**Failure to prevent bribery**

Commercial organisations can “fail to prevent bribery” on their behalf. The offence only relates to active bribery (offering or paying) in connection with the organisation’s business.

It applies to corporate bodies either incorporated in or carrying on business or part of a business in the UK. It is a defence to show the organisation had “adequate procedures in place to prevent bribery on its behalf” based on a balance of probabilities standard.

“Adequate procedures” are not defined in the Act but non-statutory guidance will be published by the Government.
Areas of uncertainty
A number of important terms are not clearly defined within the Act. The interpretation of these by regulators, enforcement agencies and courts could have a significant impact. Some examples are as follows.

- “Facilitation” or “grease” payments: these will remain illegal under the Act as they are under current UK law. Historically, prosecution discretion has been used to allow some flexibility in this area; this is set to continue but potentially with additional guidance as to how this discretion will be exercised.

- “Adequate procedures”: what constitutes “adequate procedures” in the context of a corporate defence of failing to prevent bribery will be the subject of non-statutory guidance to be published shortly. This guidance will adopt a principles and examples approach, and will therefore leave organisations to interpret the appropriate response in their circumstances.

- The Act allows for unlimited fines but does not clarify how these will be calculated. The Government has stated that it may ask the Sentencing Council to provide additional guidance.

The anti-corruption challenge
To make sure your business is managing corruption risk, these are some of the questions that you need to be asking yourself:

- Is the tone from the top right and do we know if it has the desired impact on our people?
- Do we perform an annual assessment to determine where the exposure to corruption exists?
- Is there an independent challenge when it comes to balancing commercial decisions with anti-corruption requirements?
- Are we comfortable that the typical employee will make the right ethical judgements in difficult situations and will know when and where to get support?
- How many intermediaries do we use, what services do they provide and do we have formal contracts?
- Does staff performance management embed anti-corruption requirements?
- Do we have the right balance between sanctions and support?
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