



# Australian Wheat Board

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A person in a white shirt and dark suit jacket is shown from the chest down, standing on a high-rise building. The background is a city skyline at sunset, with the Empire State Building prominently visible. The person's hands are resting on the edge of the building.

# Agenda

**01** Wheat Monopoly

**02** Bribes vs. Facilitating Payments

**03** International scandal

**04** Consequences

**05** Questions and Answers

# Australian Wheat Monopoly

- ❑ The Australian government created the Australian Wheat Board in 1939
- ❑ In 1989, Australia's federal government deregulated the nation's domestic wheat market, but any wheat that was to be exported, which was the bulk of the nation's annual harvest, still had to be sold to the Australian Wheat Board.
- ❑ In 1999, Australia's federal government converted the Australian Wheat Board into AWB Limited, a private company with two classes of common stock.
- ❑ Australia accounted for 15 percent of annual wheat exports. Thanks to the AWB, Australian wheat was being sold to more than 50 countries by the late 1990s.

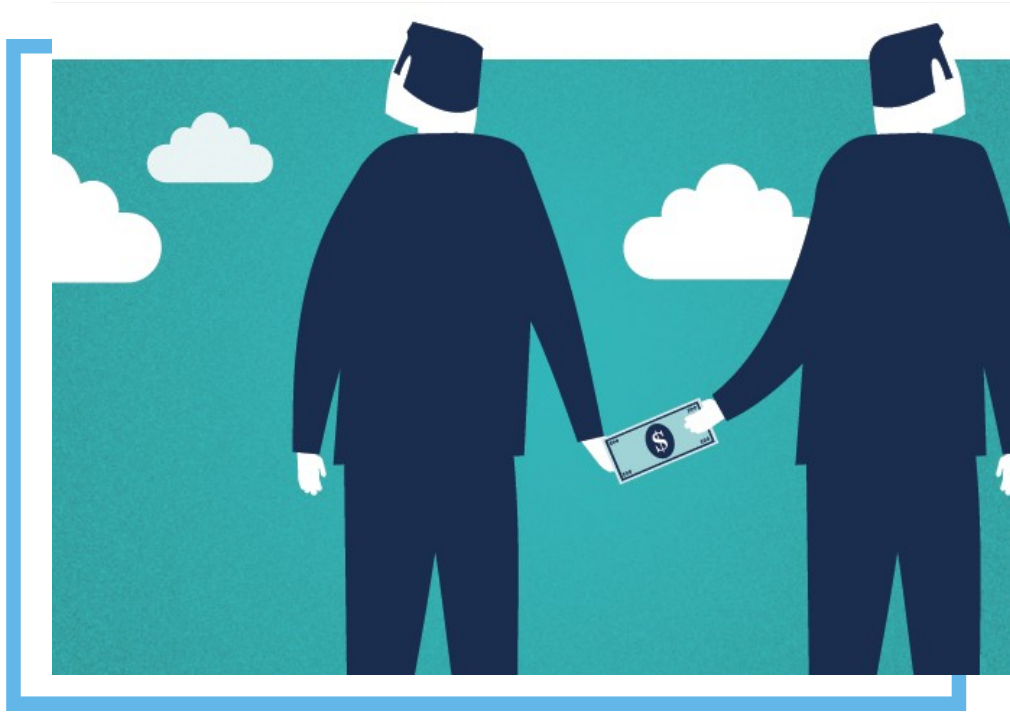
## **Class A**

Class A common stock was distributed to the country's wheat farmers.

## **Class B**

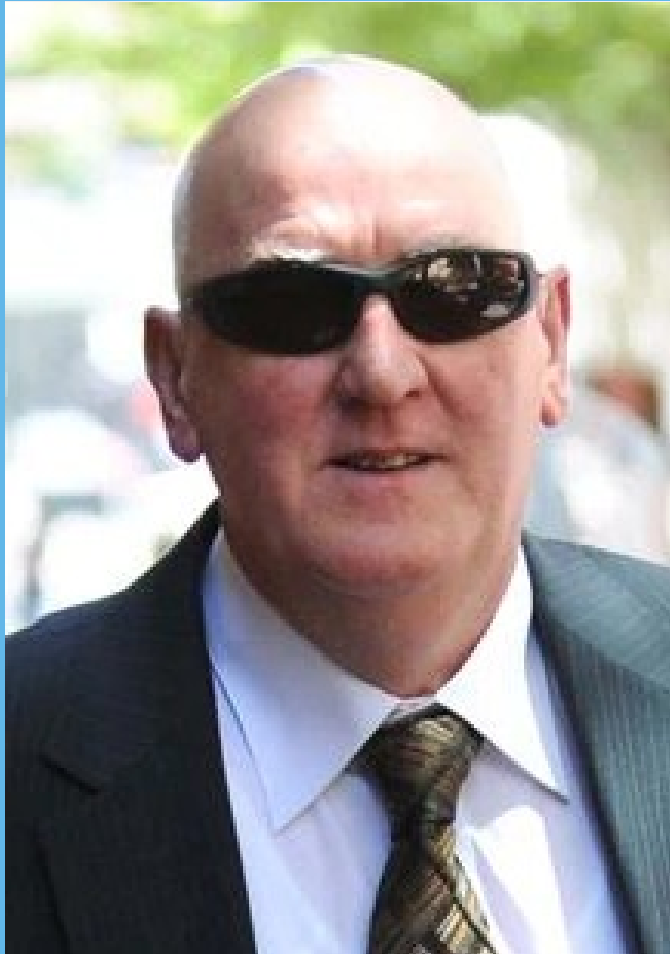
Class B stock can be purchased by anyone, but Australian law prohibits any individual or institution from accumulating more than 10 percent of those shares.

# Bribes vs. Facilitating Payments



The Organization of Economic Cooperation and Development (OECD) adopted “*Convention Against the Bribery of Foreign Public Officials in International Business Transactions*” in 1996 , obligated the organization’s 30 member countries to “criminalize” bribes that are paid to foreign governmental officials by companies that wish to gain a competitive advantage.

# International scandal



Andrew Lindberg

- During the late 1990s and beyond, top AWB executives and their key subordinates ignored the new Australian law and their company's explicit policy prohibiting the payment of bribes to acquire international business contracts.
- Iraqi newspaper reporter who revealed the scheme in January 2004 following the collapse of Saddam Hussein's government the year before.
- AWB concealed the bribery payments from the U.N., as well as from its independent auditors and other parties, by funneling them through a Jordanian trucking company that was allegedly transporting the wheat to Iraq. The Jordanian company kept a small percentage of the bribes and then forwarded the balance to Hussein's regime in Baghdad.

# International scandal

- ❑ A journalist for the Sydney Morning Herald berated the conspirators for this feature of the AWB fraud. After all, the bribe payments didn't even come out of AWB's pockets. It was siphoned by the wheat trader out of U.N. held funds in New York. The defining detail of this scandal is that these bribes were free." AWB also deducted the bribe payments as normal business expenses in its annual tax returns filed with the Australian Taxation Office, the Australian equivalent of the U.S. Internal Revenue Service.
- ❑ AWB executives staunchly denied that they had secretly paid nearly \$300 million to Saddam Hussein's regime to secure the Iraqi wheat contracts.

**The Sydney Morning Herald**  
INDEPENDENT. ALWAYS.

# Audit side

During the time frame that AWB was paying the bribes, Ernst & Young served as the company's independent audit firm and issued an unqualified opinion each year on the company's financial statements.

The report filed by Arthur Andersen with AWB identified several "red flags" and "risk factors" associated with the suspicious payments. In its report, Andersen recommended that AWB assess its ethical culture and create a "transparent" environment in which employees "are encouraged to report incidents, risks, and improper conduct.

## Audit Opinion

In our opinion, the financial report of AWB Limited is in accordance with:

- (a) the Corporations Law including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 September 2000 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Requirements; and
- (b) other mandatory professional reporting requirements.

Ernst & Young  
Melbourne  
29 November 2000

# Consequences



5 In May 2006, the company's top management did a sudden and unexpected about-face by releasing a statement confirming that those payments had been made. The statement included a contrite apology from Andrew Lindberg, AWB's former chief executive, which noted in part that "we are truly sorry and deeply regret any damage this may have caused to Australia's trading reputation, the Australian government, or the United Nations.



Australian Taxation Office permitted AWB to treat the \$300 million of payments as tax-deductible expenses, a ruling that saved the company approximately \$400 million in back taxes, fines, and interest payments.



In 2006, a group of U.S. and Canadian wheat growers filed a civil lawsuit against AWB asking for more than \$1 billion in damages. U.S. Department of Agriculture banned AWB from seeking contracts with the U.S. government.



The Cole Commission report released in late November 2006, recommended that criminal charges be filed against 11 former AWB executives. Andrew Lindberg was not one of those individuals.



# Questions and Answers

01

**Many foreign companies sell securities on U.S. stock exchanges. Do the provisions of the Foreign Corrupt Practices Act apply to those companies?**

The FCPA applies to many issuers, including individuals and businesses listed on U.S. stock exchanges or companies that are required to report to the SEC. Actions by these issuers that are considered to be prohibited types of bribes include: Winning a contract.

# Questions and Answers

## 02

**Under current U.S. auditing standards, what responsibility, if any, does an audit firm of a multinational company have to discover bribes that are paid by the client to obtain or retain international business relationships? In a bullet format, list audit procedures that may be effective in uncovering such payments.**

- The penalties for bribery of a public official includes a fine of up to three times the value of the bribe, and imprisonment for up to 15 years in a federal penitentiary. A conviction can also disqualify the individual from holding any office of honor, trust or profit under the United States.
- The Ministry of Justice, in its Guidance on the Bribery Act 2010, presents six principles for implementing adequate procedures to prevent bribery. These are: Proportionality; Top-Level Commitment; Risk Assessment; Due Diligence; Communication; and Monitoring and Review.

# Questions and Answers

03

**Suppose you discover during the course of an audit engagement that the audit client is routinely making “facilitating payments” in a foreign country. What are the key audit-related issues, if any, posed by this discovery?**

- Incorrect display of expenses and financial statements
- Tax evasion
- Violation of accounting principles

# Questions and Answers

04

**A quote in this case from an Australian newspaper suggested that many corporate boards in the United States believe that they “have no social responsibility beyond that of making profits for their shareholders.” In your opinion, what level of “social responsibility,” if any, do corporate boards have? Defend your answer.**

Every company not just think profits but also companies reputation. Because they are representing their shareholders and shareholders care most about sustainability of company not just profit.

# Questions and Answers

## 05

**The audit report shown in Exhibit 1 refers to “Australian Auditing Standards.” What organization issues Australian Auditing Standards? What is the relationship, if any, between Australian Auditing Standards and International Standards of Auditing?**

- Responsibility for final approval of Auditing and Assurance Standards lies with the National Councils of the Accounting Bodies, whereas Auditing and Assurance Guidance Statements are approved and issued by the AuASB subject to review by the Presidents of the Accounting Bodies for matters of policy.
- The Corporations Act 2001 (Cth) is an Act of the Parliament of Australia, which sets out the laws dealing with business entities in the Commonwealth of Australia.



# THANK YOU

Insert the Subtitle of Your Presentation