

Fighting Corruption : Strategies and Measures

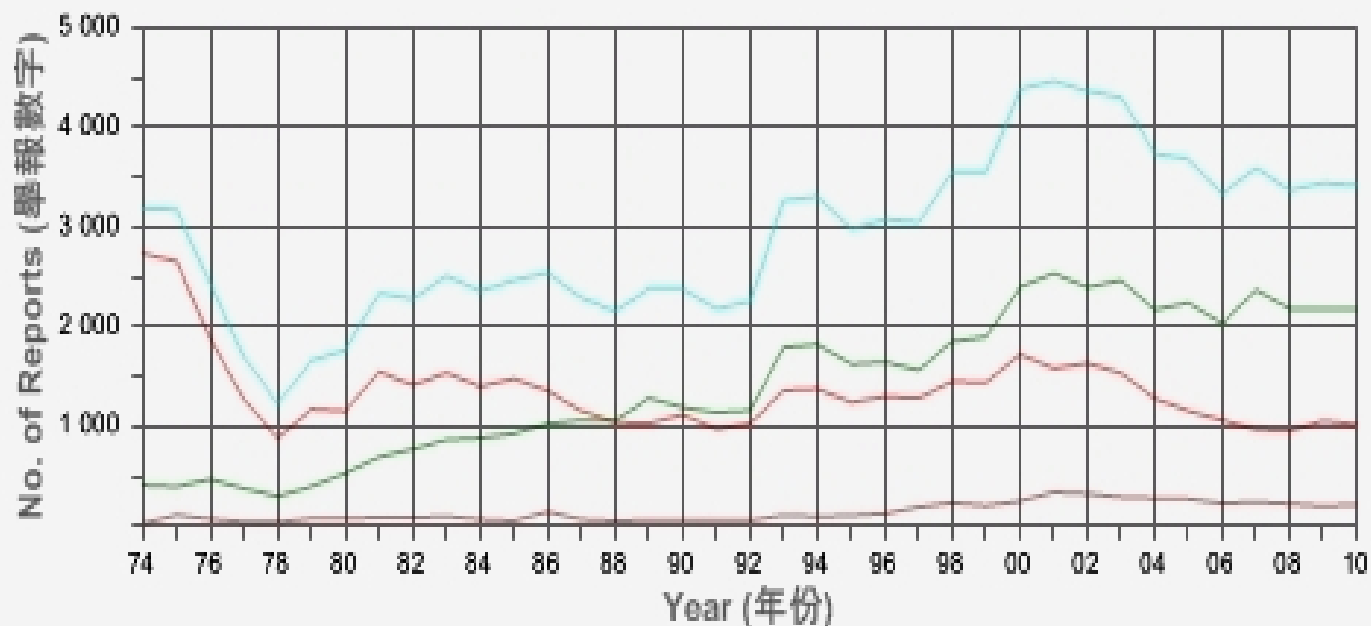
Joe Lee, Head of Advisory Services
Corruption Prevention Department



Corruption in the Private Sector



Corruption Reports

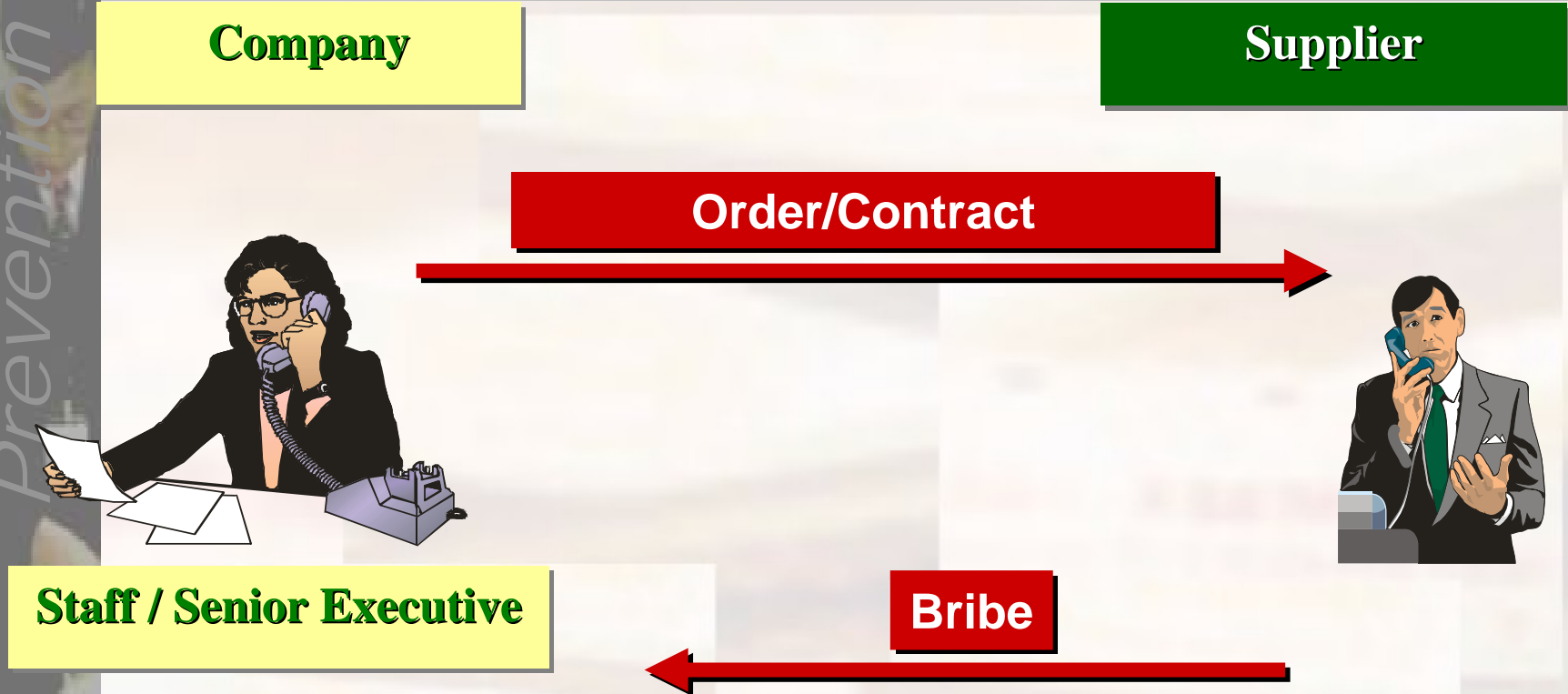


- Total Reports (舉報總數)
- Reports related with Government Departments (與政府部門有關的舉報數字)
- Reports related with the Private Sector (與私人機構有關的舉報數字)
- Reports related with Public Bodies (與公共機構有關的貪污數字)

Natures (Private Sector)

- ◆ Procurement & contract management

Corruption in Purchasing



Corruption in Purchasing

Company

Supplier

Order/Contract

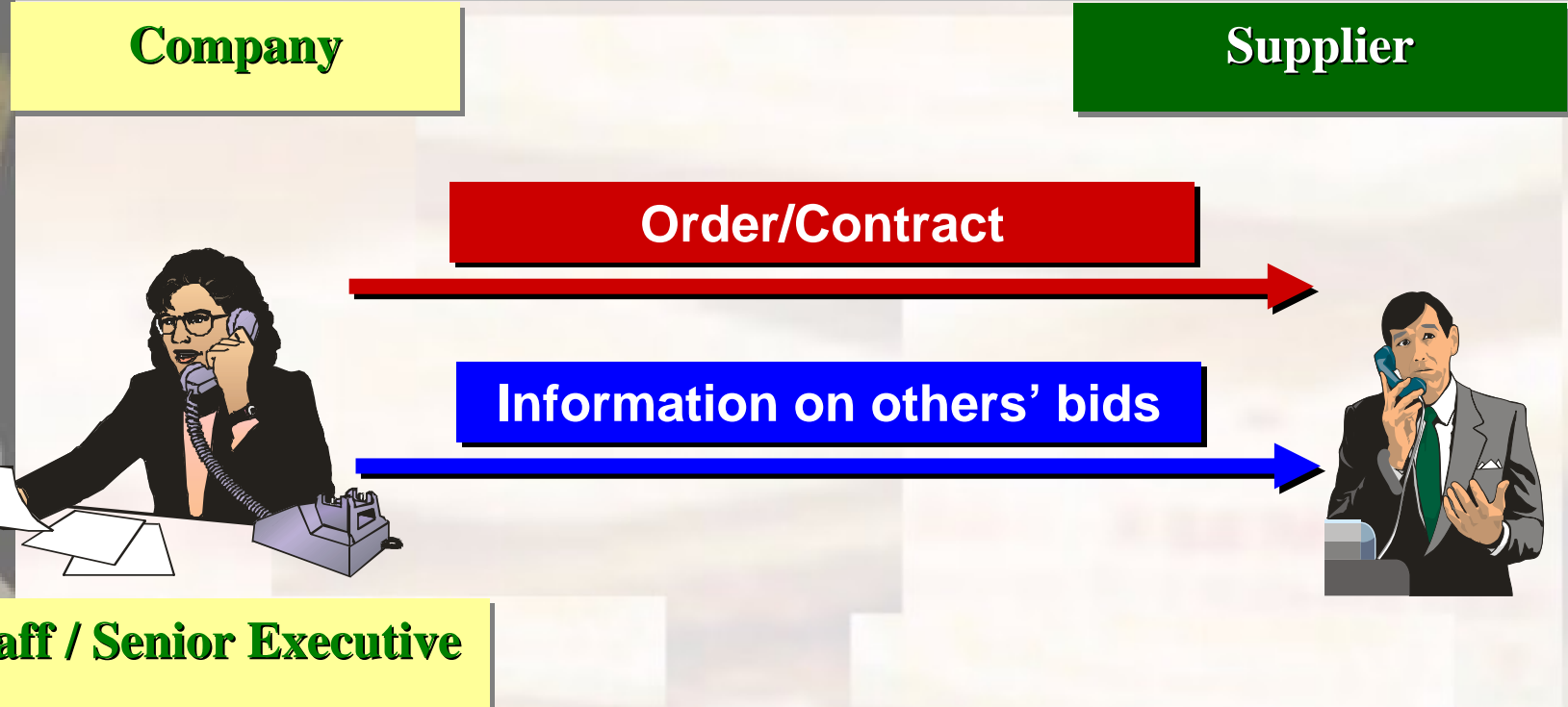


Staff / Senior Executive



**Relative/
Self-owned**

Corruption in Purchasing



Corruption in Purchasing

Company

Supplier

Order/Contract

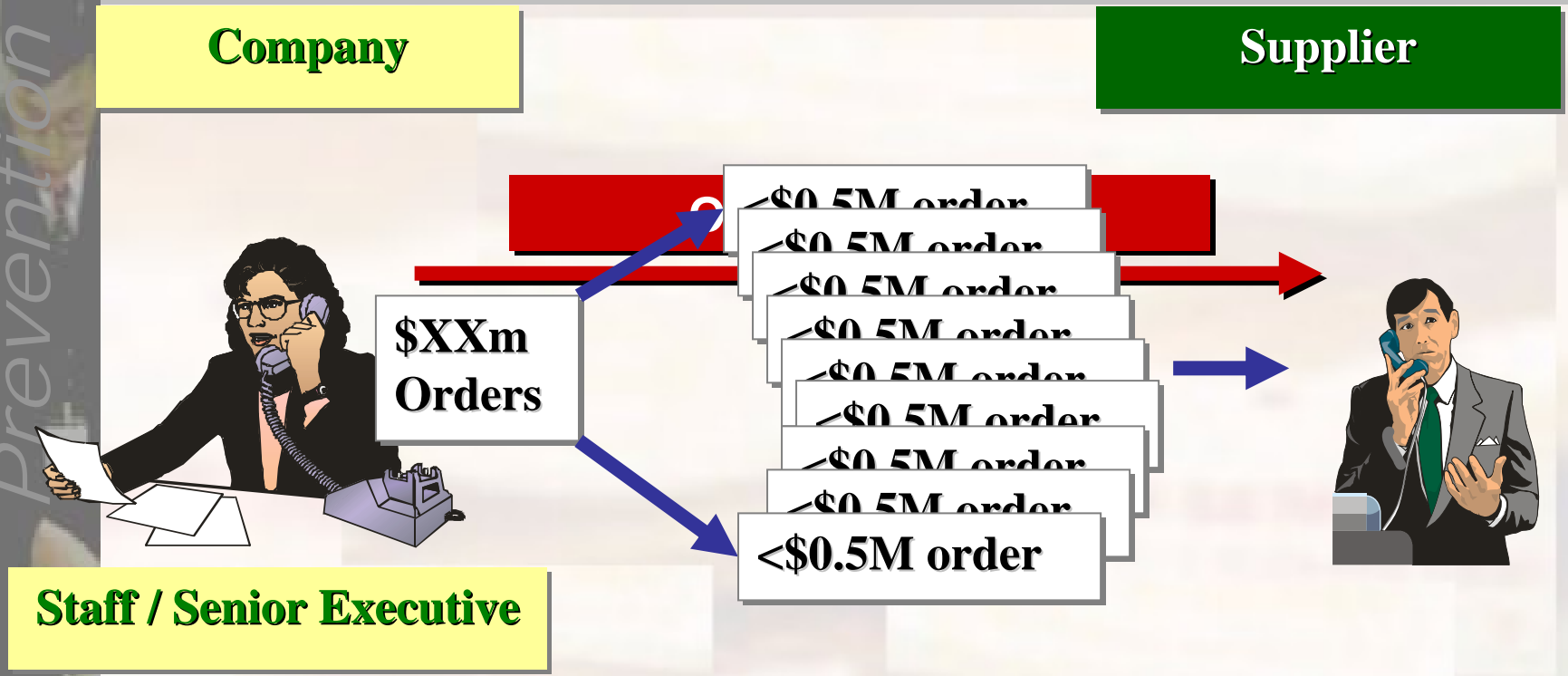
1 Genuine Quotation

2 Fake Quotations

Staff / Senior Executive



Corruption in Purchasing

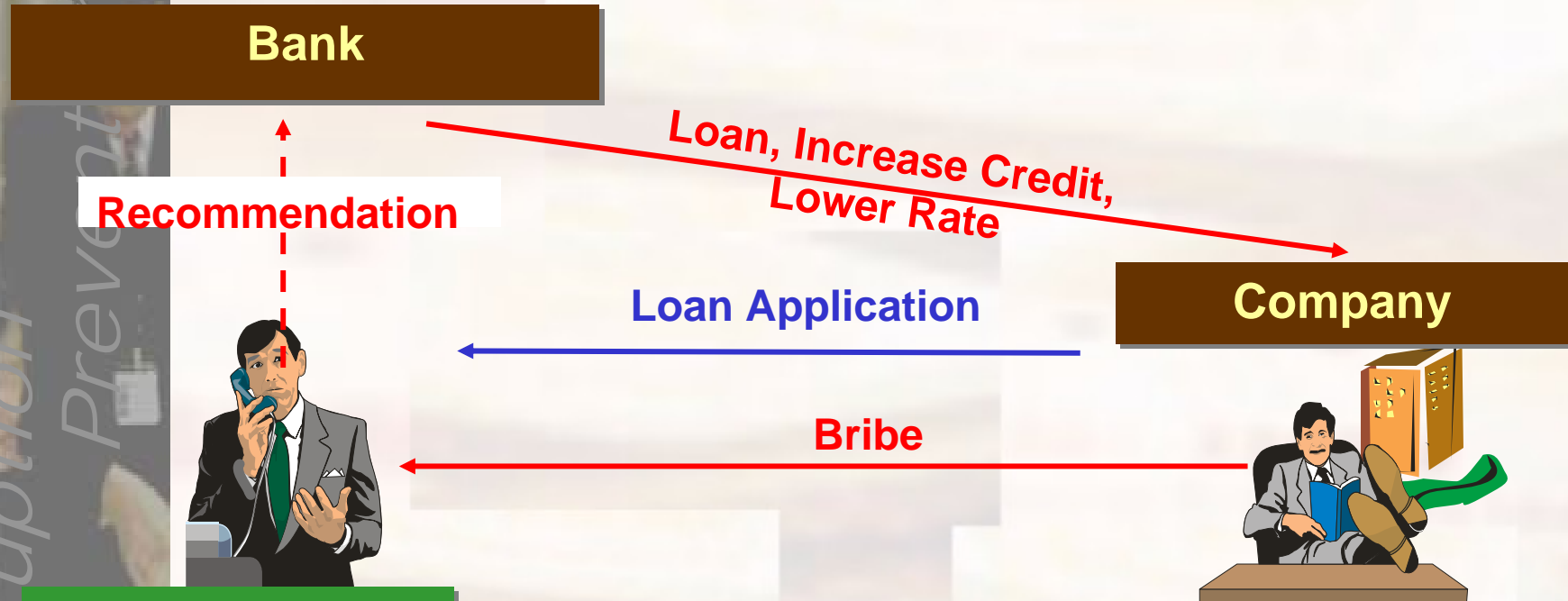


- Inadequate segregation / checks & balances
- Inadequate controls: companies often think requiring quotations = adequate control

Natures (Private Sector)

- ◆ Procurement & contract management
- ◆ Favour to others

Bank Loan



**Banker / Customer
Service Manager**

- Pressure for sales → relaxation of controls
- Inadequate checks & balances & segregation

Natures (Private Sector)

- ◆ Sales, business referrals
- ◆ Staff Management
- ◆ Misappropriation of funds/assets, misuse of company resources (e.g. customer data)

An open book with white pages is lying flat on a light-colored wooden surface. Above the book, a dark grey rectangular box contains the word "Bribery" in a bold, blue, sans-serif font. The background is a blurred grey wall.

“Bribery”

“Corrupt Transactions with Agent”

Corruption
Prevention
Hong Kong ICAC

Section 9(1)

Section 9(2)

Agent (e.g. Employee)

Any person

without lawful authority / reasonable excuse

solicits/accepts

offers

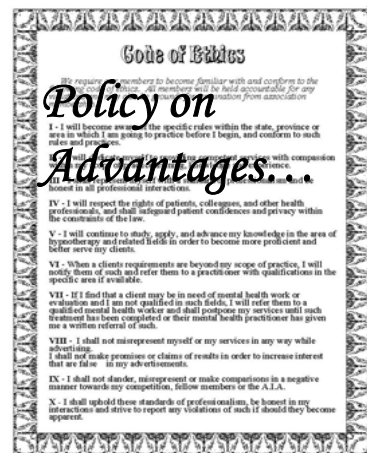
Advantage, as reward/inducement

Do / not do any act, favour or disfavour, in relation to Principal's (e.g. Employer's) business

Offence: Max. 7 years & \$500,000

EXCEPT with principal's permission
(before or asap after)

Principal's Permission



Principal & Agent Relationship

In a Company:

- ◆ Principal = The Company
- ◆ A Director is an agent of the Company

Outside the Company:

- ◆ The Company (or its director/employee) could be agent of another (e.g. a client)
- ◆ The Company's business partner could be agent of another (e.g. a client)

Strategy & Measures to Fight Corruption



ICAC Anti-Corruption Strategy



Since 1974

ICAC Anti-Corruption Strategy

Operations



The Three-Pronged Attack

Community Relations

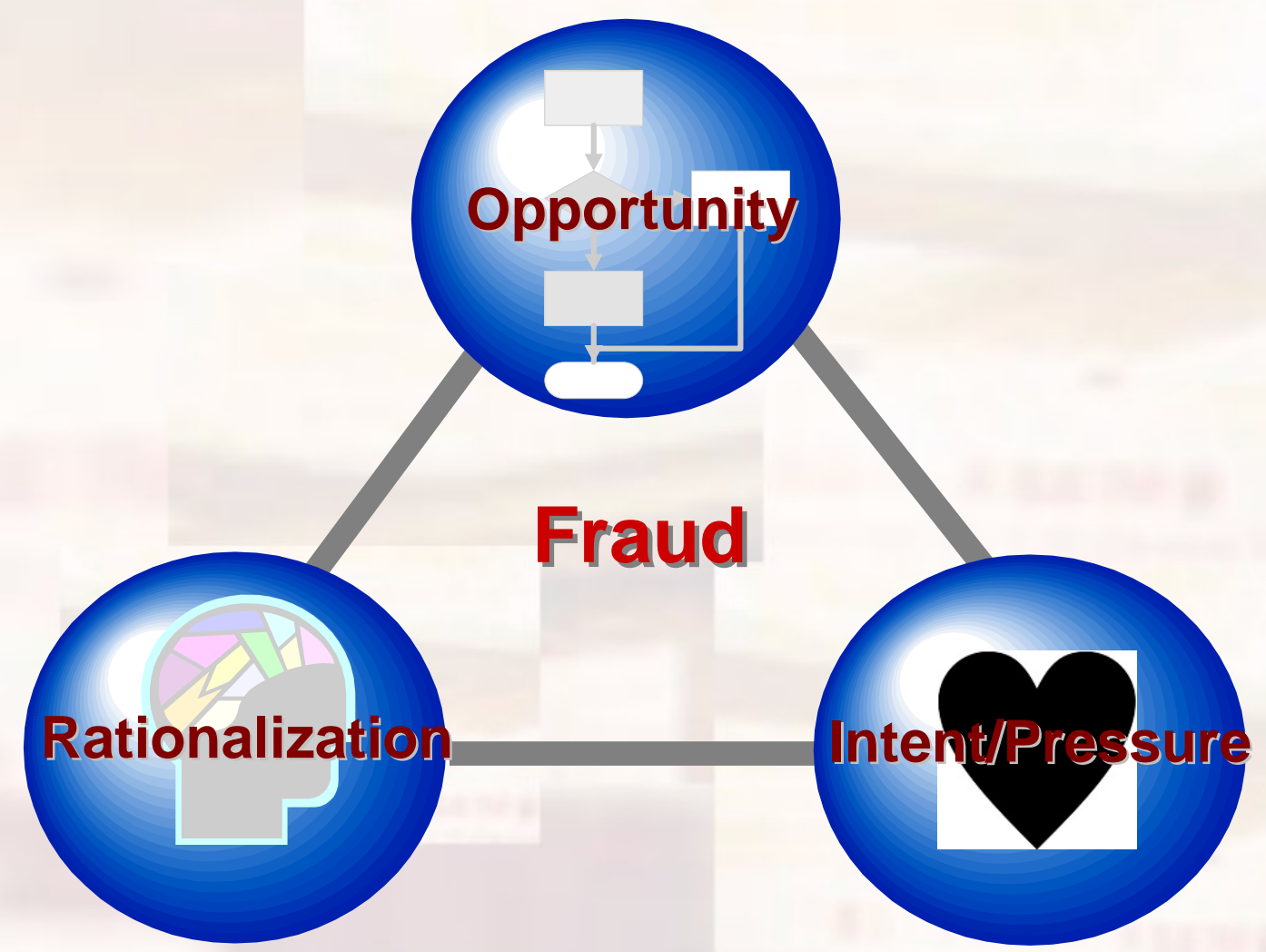


Corruption Prevention



Since 1974

Fraud Theory: The Fraud- Δ



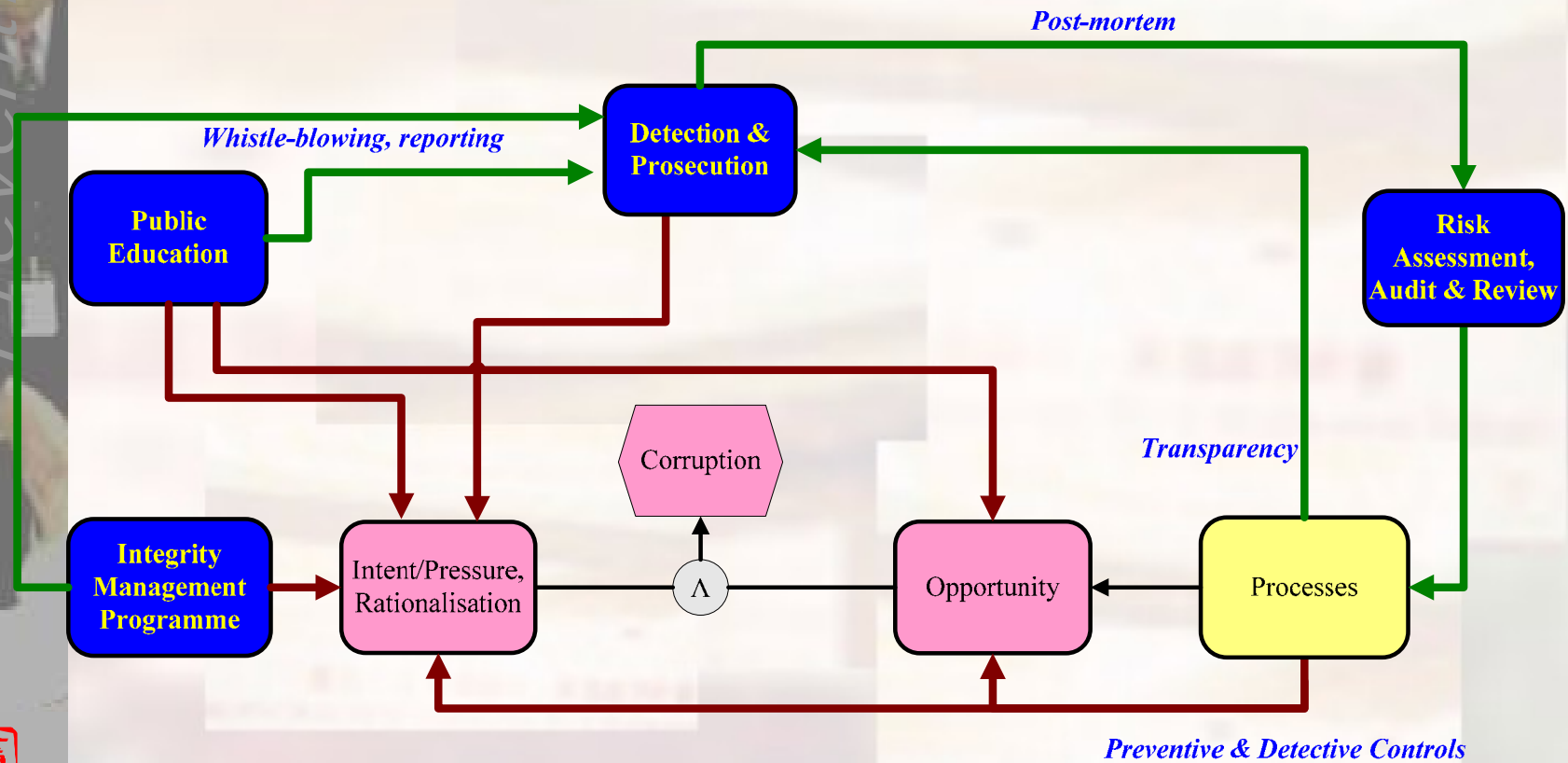
Corruption Prevention

3-Pronged Attack on the Fraud-

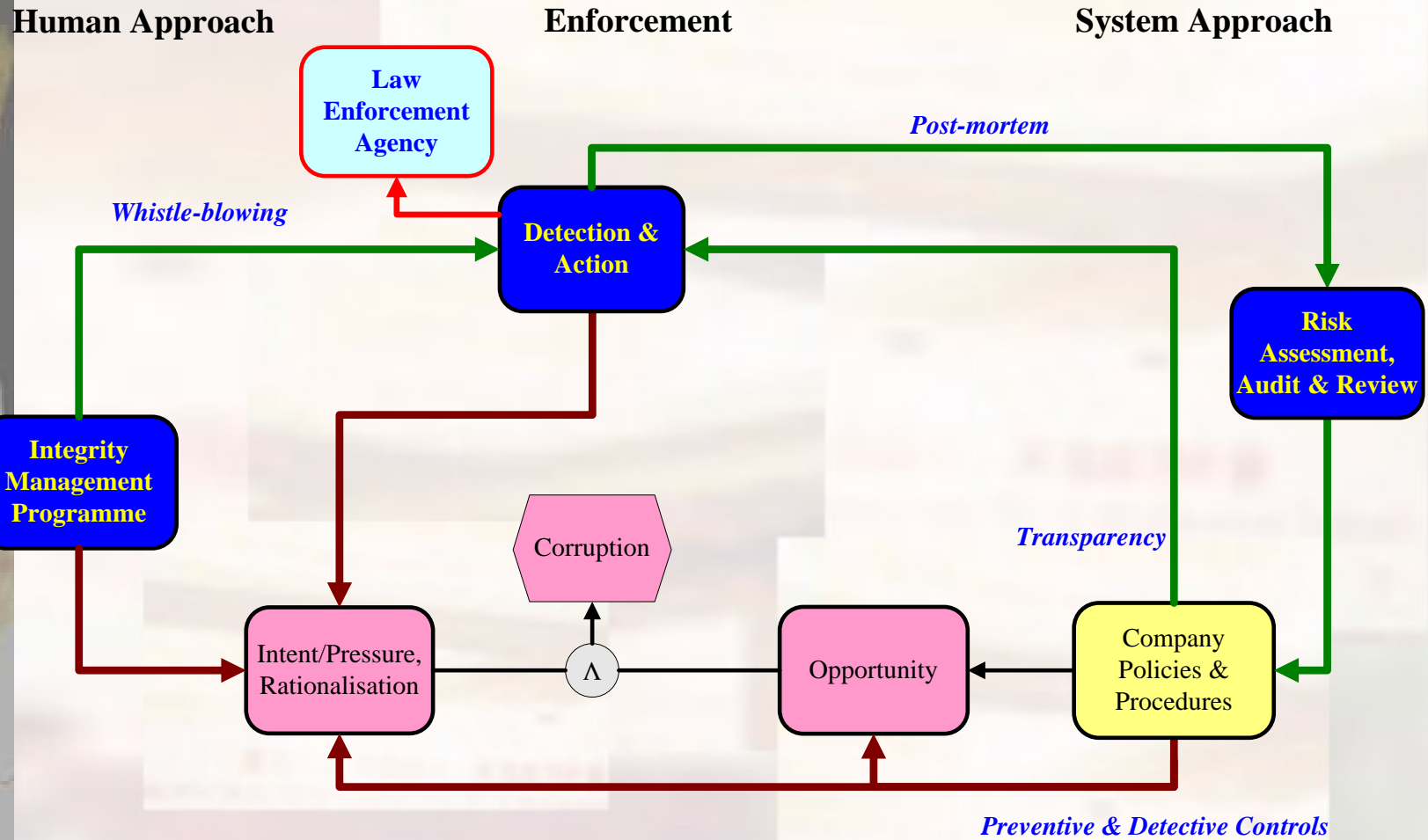
Human Approach

Enforcement

System Approach



Framework for a Corporation



Ethical & Compliant Culture

✓ Laid-down Standard/Guidelines

- ✓ Corporate Core Values
- ✓ Code of Conduct



✓ Education

- ✓ Laws & regulations, ethics
- ✓ Company policies, rules, procedures



✓ Action

- ✓ Comply with laws & regulations (spirit too)
- ✓ Adopt ethical/compliant business practices
- ✓ Provide support, e.g. enquiry/reporting channel
- ✓ Enforcement



Code of Conduct

Common Inadequacies:

- ✘ Code applying to staff, **but not Directors**
- ✘ No reminder **not to offer** corrupt gifts
- ✘ **Offer** of business gifts/commissions should not exceed \$XXXX or requires approval
- ✘ Need to seek permission/declare, but **from/to whom?**
- ✘ No guideline on acceptance of entertainment
- ✘ There's a code somewhere but **nobody has read it**

Code of Conduct

- ✓ Apply to or separate Code for **Directors**
- ✓ **Acceptance of advantages** (from persons having business dealings with the company)
 - ◆ prohibit acceptance of advantages for showing favour / where impartiality is influenced
 - ◆ allowable circumstances & value & procedures
 - ◆ approving authority, reporting channel
 - ◆ client's permission (if applicable)
- ✓ **Avoidance/declaration of conflict of interest**
 - ◆ declare to whom, declaration form
 - ◆ give practical examples

Address
POBO
concerns

Code of Conduct

- ✓ **Prohibit offer** of illegal advantages (bribery)
- ✓ **Relationship** with clients, suppliers, etc.
 - ◆ e.g. not to accept lavish & frequent **entertainment**
- ✓ **No misuse** of official position, company property or information
- ✓ **Consequences** of breaches
- ✓ **Enquiry / reporting** channel
- ✓ **Endorsed by Board / GM**

Integrity of Suppliers, etc.

- ✓ **Doing business only with ethical operators**
 - ✓ **Some corporations remove suppliers convicted of bribery from their lists**
- ✓ **Integrity requirements (probity clauses) for suppliers, contractors, etc.**
 - ✓ **Govt: probity clauses for certain contractors**

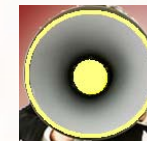
System Controls



Corruption
Prevention

System Controls

- ✓ Policies, procedures, guidelines
- ✓ Authorities & accountability
- ✓ Segregation of duties, checks & balances
- ✓ Supervision & monitoring
- ✓ Technical controls
- ✓ Independent checks/audit
- ✓ Transparency
- ✓ Feedback & whistle-blowing



Corruption Prevention Strategy

Corruption
Prevention
ICAC

Risk Assessment, Audit &
Review

System Controls

Staff & Integrity Mgt

Detection & Enforcement

Objective? **To Deter :**

- ✓ generate the **belief/perception** that corruption/misconduct can be detected &
- ✓ a **high price** to be paid
- ✓ **report criminal cases** to the authority (do not protect / cover up)

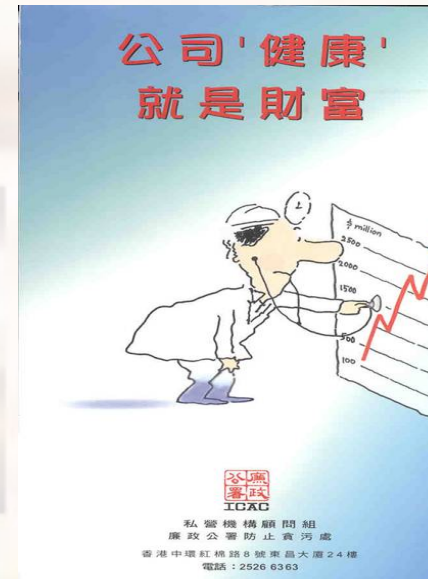
**No protection, connivance,
tolerance of corruption**

ICAC Publications

- ✓ A Corruption Prevention Guide for Listed Companies
- ✓ Toolkit on Directors' Ethics
- ✓ A Guide to the prevention of Corruption for SME Entrepreneurs Investing in Guangdong & Hong Kong
- ✓ Business Ethics – Your Way to Success
- ✓ Other trade/profession-specific guides and training kits



Advisory Services



**Corruption Prevention Department's
Advisory Services Group (ASG)**