



# ***Ethical Management Guide for Managers***



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**The Independent Commission Against Corruption (ICAC) of the Hong Kong Special Administrative Region has published this Corruption Prevention Kit on Cross-Boundary Business providing information on the Mainland and Hong Kong anti-corruption laws, as well as giving practical advice on corruption prevention. Training materials are also included to help establish an ethical corporate culture in the work place.**

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*The kit consists of two guides:*

### **Volume One Guide for Cross-Boundary Businessmen**

- ◆ Target : Hong Kong businessmen investing in the Mainland
- ◆ Content:
  - Illustrative cases of cross-boundary corruption
  - Anti-corruption laws of Hong Kong and the Mainland - an overview
  - Principles in corruption prevention
  - ICAC services

### **Volume Two Guide for Managers**

- ◆ Target : Managers of Hong Kong companies stationed in the Mainland
- ◆ Content:
  - Gist of the anti-corruption laws of Hong Kong and the Mainland
  - Practical tips on corruption prevention
  - Training materials on corruption prevention

### **Supplementary Training Materials**

- ◆ DVD: “Unusual Conflicts” - Training Package for Business Organisations
- ◆ Publicity posters for preventive education (Chinese version only)

*This publication aims to provide general guidance only and does not purport to deal with all possible issues that may arise in any given situation. Explanations of legal requirements under the Ordinances are necessarily general and abbreviated and are not a substitute for the need to review the Ordinances in detail and where appropriate to obtain specific legal advice on any issue arising. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can therefore be accepted by the Independent Commission Against Corruption.*

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*Community Relations Department  
Independent Commission Against Corruption  
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**T**argetting at managers stationed in the Mainland, this Guide aims to explain the anti-bribery legislations in both Hong Kong and the Mainland with relevant corruption prevention recommendations. It also provides training materials for the implementation of ethical management programmes to enhance staff's probity awareness and ethical standards.

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## Chapter Two *Practical Tips on Corruption Prevention*

**V**arious systems for areas such as procurement, inventory control, staff administration, accounting and information management forms the daily business of most companies. Prudent system controls in these functional areas would certainly help the management detect and deter irregularities. Listed below are some common malpractices and the corresponding preventive measures:

<b>Procurement</b>	
<b>Malpractices/Loopholes</b>	<b>Measures</b>
<p><b>1. Selection of Suppliers &amp; Contractors</b></p> <ul style="list-style-type: none"> <li>◆ Appointing a supplier or contractor, the company of which is wholly or partially owned by staff themselves or their close relatives</li> <li>◆ Setting up bogus firms to divert purchase orders or contracts from the employers or as a vehicle to inflate prices</li> <li>◆ Requesting supplier to route through a so-called “intermediary company” to promote its business and soliciting rebate from the acquainted “intermediary company”</li> </ul>	<ul style="list-style-type: none"> <li>◆ Draw up a list of approved suppliers and conduct random checks on addition and deletion</li> <li>◆ Use open tenders wherever appropriate</li> <li>◆ Conduct random checks on quotations from successful and unsuccessful suppliers to compare prices</li> <li>◆ Be alert to any sudden disappearance of regular suppliers as well as to any suppliers constantly being granted contracts</li> <li>◆ Check Business and Companies Registration records for details of owners and shareholders of suppliers to ensure they are not owned or operated by staff</li> <li>◆ Use term contractors for the supply of goods and services which are required regularly</li> <li>◆ Inform suppliers and business associates of the company’s policy on acceptance of advantage and encourage them to blow the whistle on any solicitation of bribes (refer to Appendix 4 for the sample notification)</li> </ul>

## **2. Negotiations with Suppliers & Contractors**

- ◆ Showing favour in placing orders, making excessive purchases, tolerating overcharging and accepting substandard goods and services
- ◆ Leaking information of value, e.g. tender prices, to competing suppliers and contractors
- ◆ Set up counter-checking mechanisms, e.g. more than one officer to be involved in the negotiation process and in authorising acceptance of goods on delivery; conducting spot checks to detect irregularities, such as overbuying
- ◆ Keep records of quotations (verbal or written) for random verification by senior staff
- ◆ Record every receipt of goods and check whether there is any discrepancy with purchase orders
- ◆ Keep performance records to ensure suppliers consistently meet standards
- ◆ Record and, where appropriate, investigate complaints from suppliers
- ◆ Set up procedures to ensure confidentiality of documents to prevent leakage of tender prices and quotations

## **3. Abuse of Procurement Procedures**

- ◆ Splitting orders to avoid exceeding the financial limits set by the company, or being discovered overbuying goods or services
- ◆ Acquiring goods from suppliers in the name of their employer company for use by their own private company
- ◆ Failing to observe normal procedures when making purchases and always carrying out urgent purchases to circumvent normal procedures
- ◆ Set procurement authorisation levels and corresponding financial limits for different types and amounts of goods
- ◆ Specify conditions for urgent or special purchases to minimise their being used as a pretext to circumvent normal procedures
- ◆ Cross check vouchers and records from the purchasing department and the accounts department

## Inventory and Stock Control

Malpractices/Loopholes	Measures
<p><b>1. Receiving Goods</b></p> <ul style="list-style-type: none"><li>◆ Covering up non-deliveries or accepting substandard goods</li><li>◆ Overstating loss or damage caused during delivery to cover up pilferage</li></ul>	<ul style="list-style-type: none"><li>◆ Appoint different officers to handle the duties of purchasing and accepting goods upon delivery</li><li>◆ Random checks of the damage claims</li></ul>
<p><b>2. Writing-off Stock</b></p> <ul style="list-style-type: none"><li>◆ Stealing goods by fraudulently writing-off stock</li></ul>	<ul style="list-style-type: none"><li>◆ Keep a master record of all stocks</li><li>◆ Use a standard form to record all requisitions and write-offs</li><li>◆ Involve more than one officer in authorising write-offs</li><li>◆ Keep a register of staff allowed access to warehouse keys</li><li>◆ Review regularly, with spot checks, the quantity and quality of goods</li></ul>