

# Tips for SMEs to strengthen controls and enhance corruption prevention capabilities

## Integrity Management in Retail Industry

Retail industry is an important pillar of our economy. Only by serving our customers with the highest level of integrity and providing quality products can our retail industry gain customers' trust and help buffer our business against economic downturn. In this issue, we will through a case study introduce the common fraud and corruption risks faced by small and medium enterprises (SMEs) in retail industry. Companies can also make use of the evaluation checklist to review their current system and as a basis to enhance their corruption prevention measures. Here comes the case study:

Tony, Manager of a sporting goods shop, who was responsible for sales, daily operations and staff management, was approached by a "VIP" customer recently. The "VIP" promised to offer rebates to Tony for his assistance in reserving a batch of newly released limited edition sports shoes for the former's purchase. According to the standing policy of the company, each customer can only purchase one pair of limited edition sports shoes. Therefore, Tony ordered his subordinate Mary to fabricate a number of sales receipts to cover up the scam. On the other hand, upon request of a supplier, Mary displayed the products of the supplier in an "eye-catching" location in order to boost the sales. As a token of thanks, the supplier gave two movie tickets to Mary. Mary also colluded with a colleague to pocket cash payments from customers and made false sales records to cover up their acts.



### Analysis

Under Section 9 of the Prevention of Bribery Ordinance (PBO), an agent (includes employee) who solicits or accepts an advantage in relation to his duties without his principal's (includes employer) permission shall be guilty of the offence. The offeror of the advantage shall also be guilty. Advantage means any gift, loan, commission, employment, contract, service, etc. In the above case, Tony and Mary accepted advantages (rebates and movie tickets) in relation to their duties (reserving a batch of limited edition sports shoes for the "VIP" and displaying a supplier's products in an "eye-catching" location) without their principal's permission, had already committed an offence under Section 9 of PBO. The "VIP" and the supplier were also guilty of the offence for offering advantages.

Pursuant to Section 9(3) of the PBO, it is an offence for an agent to use any false, erroneous or defective receipt, account or other document to deceive his principal, regardless the agent has accepted any advantage or not. Tony and Mary, with the intent to deceive their principal by furnishing falsified sales receipts/records, committed an offence under Section 9(3) of PBO. It is also a criminal offence under the Theft Ordinance for Mary and her colleague to pocket cash payments from customers.

## Checklist

To prevent similar incident from happening, SMEs can make use of the following checklist to quickly review their sales process and identify corruption loopholes so that they can put in place appropriate corruption prevention measures to safeguard their interests.

	Yes	No
• Does your company segregate the duties (such as sales, receipt of payments, calculation of commissions, etc.) in the sales process among staff members to avoid vesting too much power on individual staff?	<input type="checkbox"/>	<input type="checkbox"/>
• Does your company formulate any sales policies to specify commission, discount and credit arrangements?	<input type="checkbox"/>	<input type="checkbox"/>
• Does your company specify the payment terms, including credit payment, to prevent staff from embezzling payments collected from clients?	<input type="checkbox"/>	<input type="checkbox"/>
• Does your company maintain proper records of all sales transactions, including details of the product prices, special offers, the responsible staff, copies of the invoices and receipts, etc.?	<input type="checkbox"/>	<input type="checkbox"/>
• Does your company designate any supervisory staff to detect malpractices by conducting random checks of the transaction records?	<input type="checkbox"/>	<input type="checkbox"/>
• Does your company conduct random verifications with clients on sales transactions, in respect of the prices, special offers, etc.?	<input type="checkbox"/>	<input type="checkbox"/>
• Does your company provide training on the Prevention of Bribery Ordinance so as to raise the corruption prevention awareness of management and supervisory staff and provide relevant measures?	<input type="checkbox"/>	<input type="checkbox"/>

Any negative answer to the above questions denotes the existence of corruption risks in your sales process. You are welcome to contact the Hong Kong Business Ethics Development Centre of the Independent Commission Against Corruption (ICAC) for assistance in reviewing and strengthening internal controls of your company. For further information or obtaining the newly launched Corruption Prevention Training Package for Retail Industry “Integrity + Quality: Shopper’s Paradise”, please contact us through the channels below:



**Hong Kong Business Ethics Development Centre, ICAC**

**Telephone: 2587 9812**

**Email: [hkbedc@crd.icac.org.hk](mailto:hkbedc@crd.icac.org.hk)**

**Website: [www.hkbedc.icac.hk](http://www.hkbedc.icac.hk)**

You can contact the ICAC for any corruption-related enquiries and complaints. Full evidence is not required when lodging a corruption complaint with the ICAC as long as there is a reasonable suspicion. All information is kept in strict confidence.



**Report Corruption Hotline : 25 266 366 (24-hour Service)**