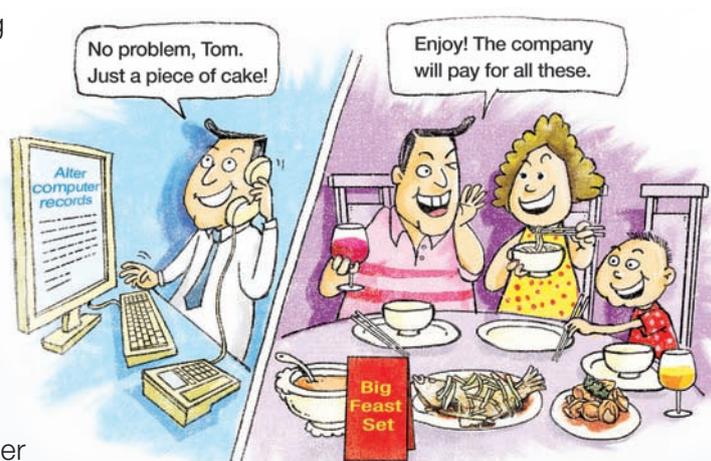


Tips for SMEs to strengthen controls and enhance corruption prevention capabilities

Finance and Accounting

In this issue, we will introduce the corruption risks in the finance and accounting function of small and medium enterprises (SMEs) as well as the corresponding corruption prevention measures through the use of a case study and an evaluation checklist. Financial management is one of the important business functions of companies. Effective accounting procedures and comprehensive accounting records are indispensable for safeguarding a company's financial resources against unauthorised use or theft as these illicit activities will adversely affect its financial position. The following case study concerning finance and accounting can shed light on the risks involved.

Eric was the Operations Manager of an LED lighting products company. As an old hand in the industry, he had established good relationship with customers and business partners over the years. For that reason, his boss had placed great trust in him. Tom, a proprietor of a forwarding company, handled 80% of the shipment for Eric's company. Recently, Tom wanted to slightly increase the rate of transportation fees. Worrying that Eric's boss would turn to other logistics companies if he knew about the price hike, he sought Eric's help in modifying the company's computer records of the quotations and invoices of the forwarding services so that Eric's boss would not notice the increase. Eric and Tom went back a long way, and Eric owed Tom a favour as Tom had offered him a loan to help him out of a financial predicament years ago. Without much hesitation, Eric acceded to Tom's request. Worse still, on a number of occasions, Eric submitted bogus reimbursement applications to the Accounts Department of the company, claiming that the expenses were incurred for entertaining clients. In fact, the money was spent on Eric's private gatherings without the presence of any client or business associate.



Analysis

Pursuant to Section 9(3) of the Prevention of Bribery Ordinance (PBO), it is an offence for an agent to use any false, erroneous or defective receipt, account or other document to deceive his principal, no matter whether the agent has accepted any advantage or not. Eric, driven by his friendship with Tom, assisted the latter by altering the computer data and using false quotations and invoices with an intent to deceive the company. Although Eric had not accepted any advantage from Tom, he would still commit an offence under Section 9(3) of PBO. It is also a criminal offence for Eric to obtain access to a computer with a view to dishonest gain for himself or another person. In addition, by furnishing false information in the application for reimbursement with an intent to deceive his company for entertainment fees, Eric again breached Section 9(3).

To prevent similar incident from happening, SMEs can make use of the following checklist to quickly review their finance and accounting procedures and identify corruption loopholes so that they can introduce the appropriate corruption prevention measures to safeguard their interests.

- | | Yes | No |
|---|--------------------------|--------------------------|
| • Does your company segregate accounting duties and procedures (such as daily operations, issuing invoice, inspection of goods, etc.) to avoid putting too much power on individual staff members? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company conduct random checks on staff's work and business transactions with a view to detecting malpractices? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company set out the limits of authority for staff accessing or altering computer data / confidential information? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company properly maintain important records and documents to avoid unauthorised amendments? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company cross-check accounting records with delivery records regularly? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company require staff members to seek prior approval for incurring entertainment expenses? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company have any guidelines governing claims of reimbursement, such as setting upper limits of advance expenditure incurred by different ranks of staff, requiring claimants to submit receipts to their supervisor for approval, and settling payment by corporate credit cards? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Does your company clearly convey the message of "zero tolerance to corruption" to the staff? | <input type="checkbox"/> | <input type="checkbox"/> |

Any negative answer to the above questions denotes the existence of corruption risks in your finance and accounting procedures. 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, please contact us through the channels below.

Full evidence is not required when lodging a corruption complaint with the ICAC. All information is kept in strict confidence.



Hong Kong Business Ethics Development Centre, ICAC

Telephone: 2587 9812

Email: hkbedc@crd.icac.org.hk

Website: www.hkbedc.icac.hk

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

