

CORRUPTION PREVENTION - THE HONG KONG EXPERIENCE

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I. INTRODUCTION

This paper describes the Hong Kong experience in fighting corruption. It briefly outlines a number of factors that are conducive to corruption and fraud and then details some of the activities of the Hong Kong Independent Commission Against Corruption, better known simply as the ICAC. While the corruption prevention practices have been developed to suit the Hong Kong environment, it is believed that many corruption problems stem from common causes and may respond to similar approaches.

II. CORRUPTION IN SOCIETY

Corruption can be found in all walks of life ranging from matters involving petty and relatively insubstantial issues to those of great significance and value. Nonetheless, corruption has commonly been associated with major development activities such as:

- infrastructure projects including dams, harbour works, bridges, highways, airports, railways, and mass transit systems;
- licenses and/or leases for extractive industries and other concessions (e.g logging, mining and oil leases, fishing concessions);
- large scale industrial, commercial or residential developments (e.g mass housing programmes, resorts, new towns, theme parks, science parks);
- the design, specification and supply

of transportation and telecommunications equipment (railway rolling stock, bulk handling);

- bulk purchases of supplies, such as petroleum, fertilisers, cement, chemicals and pharmaceuticals;
- service and consultancy activities (feasibility, land tenure studies, etc).

A more detailed examination of cause and effect indicates that there are a number of common factors that generate corruption risk. These generally comprise of:

- any level of decision-making involving the exercise of discretionary power;
- arrangements involving patronage or conflict of role;
- approval, licence or permit systems which involve granting of a benefit or generating a financial gain;
- situations involving security or confidentiality that can be compromised; and
- situations where the standard operating rules and procedures are not clearly defined.

These factors bear no relationship to the value of a purchase or transaction. Thus, cases of bribery and corruption may arise from routine licensing arrangements and approvals as well as from immigration and customs breaches, electoral malpractices, and all types of cash collection arrangements. Corruption may involve the leakage of confidential information in police operations or in procurement; in administrative decisions on welfare benefit

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entitlements and housing allocation; or in the distribution and location of hawkers' stands and market stalls.

Public attention is drawn to the more obvious cases where the incentives for corruption are greater and which entail major decisions involving large sums of money. However, the risk of corruption is just as real for everyday transactions where more elaborate protective mechanisms cannot be economically employed. Given the number and scope of such pursuits, the cumulative exposure to risk may well exceed that of the larger contracts, while the moral impact is equally damaging.

Nonetheless, both motivation and opportunity must come together in order for corruption to occur. Unless the opportunity presents itself to individuals, corruption will remain just a theoretical possibility. This intermingling of motivation and opportunity must always be considered when structuring an effective anti-corruption strategy.

III. THE IMPACT OF CORRUPTION

What damage is caused by corruption? The most obvious effect is to directly increase the cost of a transaction. If a bribe of 5% or 10% is paid, it seldom comes out of the seller's pocket. They will merely build it into the price to be met by the purchaser. Indeed, the fact that a bribe is being paid often makes it possible for the seller to inflate the price by considerably more than the bribe amount.

It is not easy to find definitive statistics on the likely economic cost of corruption. A 1996 Hong Kong fraud study, published by consultants KPMG, estimated a total cost (to local respondents) of HKD \$230M. The consultants highlighted that this figure was probably significantly understated. KPMG also reported that the

most prevalent areas were purchase fraud, which accounted for 26% of reported cases. Twenty percent of the frauds could be categorised as corruption related offences such as kickbacks. Similar figures were reported in another KPMG International Fraud Report, which highlighted kickbacks and procurement fraud as particular problems but also identified employee fraud as being the most prevalent source of malpractice. The amount of internal employee involvement provides an indication of where one needs to start with corruption prevention measures.

KPMG's 1995 Australian Fraud Survey estimated corporate fraud at A\$16B to A\$20B per year. Another survey by Ernst & Young in 1996 reported that 95% of Australia's top 500 companies experienced fraud over the preceding five years, and for 68 % of those cases it was over A\$1M. The Australian Commonwealth Auditor-General estimates the level of organisational fraud to be 2-5% of private sector turnover.

These figures, together with other anecdotal evidence, indicates that corruption can add between 2% to 15% to the cost of business, depending on the country and local environment. Despite such obvious losses, it is disconcerting to note that until recently, firms based in some developed nations have been prepared to fund corruption in many developing nations.

The direct increase in cost is by no means the only effect. Once the possibility of personal gain becomes a factor, it rapidly becomes dominant - pushing aside quality and other legitimate considerations in the awarding and performance of contracts or in the provision of services. The result is that economic decisions are skewed; the wrong suppliers and/or contractors are selected; and materials, quality standards

and safety are compromised. Supplies or projects that are not needed may be given priority over more important projects for no better reason than the fact that they enable decision-makers to obtain large bribes.

The moral damage is perhaps more serious. Bribery involves a breach of trust or a violation of a relationship. The damage to confidence, reputation and image inflicted on a corporation or on public sector administration is debilitating, while the loss of faith in the integrity of decision-makers can even destroy the social fabric of a nation. While seemingly benign on the surface, corruption breeds distrust and may contribute to more violent crimes as the social injustices accumulate and become more obvious.

IV. THE HONG KONG ICAC MODEL

The ICAC was established in 1974 in response to rampant corruption within the police force and other sections of the public sector. It has adopted an integrated three-pronged attack on corruption based on the strategic components of investigation, prevention and education. These three anti-corruption offensives are reflected in its structure, which comprises three functional departments - the Operations Department, Corruption Prevention Department and Community Relations Department.

The Operations Department receives reports and investigates complaints. This investigative and enforcement role is without doubt the most visible activity of the Commission, attracting intense public and media interest in major cases. The corruption cases are identified from complaints received from a number of sources including a 24-hour hot-line report centre.

The Community Relations Department is responsible for the education, publicity and moral leadership roles of the Commission. Its role is directed towards mobilising public support in the fight against corruption. In addition to broad community-based programmes using the mass media, specific programmes have been developed for various sections of the community. These activities explain anti-bribery laws in layman's language, educate the young at schools and universities, and encourage business organisations to adopt appropriate corporate codes and corruption prevention measures. The general confidence-building and outreach programmes are designed to raise the level of public awareness and willingness to report promptly any suspicion of corruption offences. They also include the operation of a number of regional community offices that are readily accessible to the public. The end result is that the ICAC maintains a high public profile and 'mind-share' within the community.

The Corruption Prevention Department's mandate is to prevent corruption within organisations by examining their internal operations and proposing corruption-resistant management and administration systems. This objective has been successfully implemented within the public sector by the establishment of effective and transparent systems, thus providing an example of the principle that prevention is much better than cure.

V. CORRUPTION PREVENTION ROLE

From the time the ICAC was established, maintenance of the integrity

¹ In "Corruption: The Facts", article by Daniel Kaufmann, p. 114 of "Foreign Policy" - Summer 1997.

² In "Model Law on Corruption".

of public institutions was considered to be a priority. Given our primary role to advise government departments and public bodies on reducing corruption opportunities, the legislation therefore empowers us to act with considerable authority when dealing with corruption prevention in the public sector.

The legislation also provides that we must give advice on request to any person and any private sector organisation. For the private sector, the acceptance of our prevention advice is not mandatory. To strengthen the scope of our scrutiny we can apply to have organisations designated as 'public bodies' where they enjoy particular monopolies or have significant community roles e.g the Hong Kong Jockey Club, Mass Transit Railway Corporation, Airport Authority, Utility Companies, Universities, Hospital Authority and so forth. In total there are currently 85 declared public bodies.

The Department is relatively small with only 59 staff members and is split into functional groups that specialise in particular areas of work or client groups. A high proportion of the staff is professionally qualified. Staff members are appointed at a relatively senior level since they must be sufficiently experienced and knowledgeable to liaise closely with senior company management and government officials on corruption prevention matters that can substantially affect operating practices.

VI. CORRUPTION PREVENTION METHODOLOGY

Our prevention strategy is based on a systems approach, with a methodology founded on operational audit principles. Our major workload comes in the form of assignment studies where priority assignment areas are identified and then

examined in detail, culminating in a comprehensive report containing a series of recommendations. To generate maximum input and commitment to the process, client (i.e the organisation whose procedures are being reviewed) involvement is encouraged at all stages. Draft recommendations are normally discussed with the client prior to release of the report to take account of any practical factors in implementation and thereby facilitate their adoption.

Strict confidentiality has been maintained on the report contents to instil confidence in the process. Accordingly, there has been little publication of the recommendations except in general articles covering anti-corruption issues or as source material for the development of "Best Practice" approaches. To date we have completed more than 2300 assignment reports covering a wide range of public sector activities.

The sources of work are Operations Department investigations; areas identified by our own staff or by joint ICAC/client liaison groups; and requests from the clients themselves. As a liaison strategy we meet regularly with the directorate officers of major government departments and the senior management of public bodies. These Corruption Prevention Group meetings discuss priorities, explore problem areas and review the implementation of previous studies. They have proved very productive.

A considerable number of private sector referrals come through the services of the Community Relations Department and their network of regional offices. Previously, much of this work was directed towards specific problem areas such as stock control, purchasing, and rules for staff on accepting advantages, but the scope of work has been expanding with a greater focus on system risk analysis,

113TH INTERNATIONAL TRAINING COURSE VISITING EXPERTS' PAPERS

managerial accountability and corporate governance. Ethics development work is typically conducted in association with our Community Relations colleagues as part of a co-ordinated programme of enhanced ethical and corruption awareness training linked with the promotion of Corporate Codes of Conduct.

An increasing proportion of staff time is involved in consultative work. Government departments commonly ask the Department to study the implementation of new policies and procedures and we are represented on both ad-hoc and standing working groups or committees. Involvement in the policy development process enables us to have effective input at an early stage, where accountability and effective controls are best identified. Typical examples include our representation on a treasury review of government tendering and procurement procedures and membership of the Construction Advisory Board, which provides advice to government on issues related to the construction industry. Other examples of our procedural development work are the analysis of tendering arrangements for major extensions of the Kowloon and Canton Railway Corporation and Mass Transit Railway Corporation; examination of Housing Authority policies; and involvement in all stages of construction of the new Hong Kong Airport and related infrastructure projects.

VII. CORRUPTION RISK FACTORS

Our reviews of corruption risk concentrates on areas identified as being prone to fraud and corruption. Assignment recommendations then focus on mechanisms for reducing or minimising corruption opportunities while optimising administrative performance, system controls, transparency and accountability. This strategy of promoting system change

is based on the belief, that whilst corruption may be investigated and offenders prosecuted, unless the underlying management deficiencies are corrected, the same or similar corrupt acts could easily re-occur.

Fact-finding involves identification and assessment of a range of possible risks, along with current controls and possible control improvements. These observations do not imply that corruption is occurring, but highlight areas where internal controls are absent or deficient and the system is potentially at risk. Our reviews therefore extend beyond the scope of financial audits to examine management issues which might allow misconduct such as:

- misuse of power and discretionary authority;
- neglect of duty or omission;
- favouritism;
- administrative deviations and breaches of regulations;
- inappropriate legislation;
- information and confidentiality breaches; and
- conflicts of interest.

Various techniques and risk indicators are used in analysing the existing system for weak-points and loopholes that might expose the unit or operation to potential corruption. These include:

- internal control weaknesses reported through internal audit reviews or previous corruption cases;
- discrepancies or deficiencies in the implementation of previous remedial action(s);
- weaknesses in the system chain of controls;
- reported deviations from management controls;
- role playing and “what if?” scenarios;
- identification of system control

features able to be bypassed by higher authorities or alternative procedures; and

- inconsistencies in the matrix of management authorities and accountabilities.

The report recommendations can be wide-ranging and may include proposals for revamping administrative systems; review of asset management policies and procedures; introduction of enhanced transparency and procedural arrangements for purchasing and tendering; better documentation and review standards; new or revised management and quality assurance manuals; and the adoption and promulgation of performance pledges, ethical guidelines and Codes of Conduct.

While some organisations may initially feel some trepidation in agreeing to an assignment study, the use of competent and experienced staff and close attention to detail in formulating the recommendations has resulted in a high level of client satisfaction. Conducting the study in a spirit of close co-operation with the client no doubt helps to achieve this outcome. The work is conducted at no cost for private clients and the acceptance and implementation of the recommendations remains at the company's discretion.

VIII. A CASE STUDY IN CONSTRUCTION

Engineering construction is an important element in Hong Kong's economy and today contributes about 9% of Hong Kong's gross domestic product. Of this, public sector construction contributes about 45% and the private sector 55%. Public sector projects are handled transparently with advance publication of construction programs, pre-qualification and open competitive tendering exercises

and increasingly stringent quality and safety requirements, subject to on-site supervision and third party testing and certification. Contractors performing public sector construction work are subject to financial and technical assessment and are chosen from approved lists maintained by the central policy Works Bureau.

The newly completed Hong Kong Airport Project constituted one of the most massive infrastructure undertakings in the world. The core projects were completed under very stringent time and cost constraints and contained all of the elements that might be prone to corruption such as:

- sensitive planning and land use approvals;
- selection and appointment of widely divergent consultant teams;
- complex contracts (hundreds) with highly technical specifications;
- negotiated contracts and value selection of contractors;
- use of international and joint venture contractors;
- fast-tracking of planning, design and construction;
- large sums of money;
- numerous variations and claims arising from design changes;
- a multiplicity of sites and numerous interface issues with contractors and consultants; and,
- the involvement of diverse skills, nationalities and languages.

Given the immense size and tight time scale for the undertaking, the standard form of government contract was modified, and revised contractual, administrative and claims procedures were adopted. From the beginning, the procedural arrangements and tendering processes were developed in close consultation with the Corruption Prevention Department. Particular attention was paid to include

mechanisms that would ensure transparency and equity in consultant and contractor selection, effective contract execution and close monitoring of all performance aspects, including claims and variations. The evidence so far is that this liaison was very successful, with few allegations of corruption.

IX. A PROCUREMENT EXAMPLE

Procurement is one of the areas most prone to corruption. In analysing procurement systems, our objectives are to ensure:

- the best possible value-for-money outcomes;
- minimal risk of fraudulent or corrupt activity in the selection of firms and final contract awards through structured processes; and,
- reinforcement of all legal requirements and ethical standards by incorporating guidelines and contractual conditions relating to Best Practice, Prevention of Bribery Ordinance, corporate conduct, conflict of interest etc.

We require that the procurement process demonstrates the necessary elements of fairness and impartiality to survive full disclosure and critical public scrutiny. The resulting level of transparency needed to avoid any potential claims of favouritism or conflict of interest may involve very detailed procedures and extensive documentation depending upon the product, service or project.

For many procurement cases the quality of performance is a significant factor, and we recognise that selection may not be based purely on price competition. In fact, uneconomic contract prices can provide a further incentive for corruption during contract execution, as the participants attempt to recover costs and achieve

greater profitability by any means possible. Value assessment and supplier selection is accomplished by nomination of suitable assessment criteria that are weighted in proportion to their importance to the contract performance or specification. We provide extensive advice on these techniques and the attendant procedures.

Government and public bodies are required to adopt open competitive bidding methods, except under defined circumstances requiring full justification and documentation. Notwithstanding a competitive award policy, negotiation can be employed but is normally restricted to high value contracts because of the extensive documentation required and time constraints, contractual difficulties, perceived corruption opportunities and overall costs of the process.

Other anti-corruption techniques are to restrict the discretionary role of the procurement officers, to codify the procedures, and to apply separation of functions so as to require greater (and therefore less likely) collusion if corruption is to occur. Open advertising, pre-qualification exercises, formalised lists of suppliers and contractors, adoption of objective selection criteria with advance notice to bidders, detailed tendering and evaluation procedures, balanced selection panels, full documentation, monitoring of purchasing patterns and vendor relationships, random checking by senior management and effective audit programmes, are all strongly encouraged.

X. THE KEY TO PREVENTION - TRANSPARENCY AND PUBLICITY

We believe the best ally in corruption prevention is the public. When dealing with the public sector, if people know and understand their entitlements and rights, they will be aware of any shortfalls in service quality. Therefore we consider it

essential to ensure that the public is kept well informed as to the expected time to issue licenses; when, how and where to apply for services; the costs of services; and the necessary documentation to be submitted. The provision of clear self-explanatory forms and supporting documentation forms part of the necessary publicity and education programme.

All government offices now routinely publicise the key aspects of their operations, with prominently displayed application forms and other public notices. We also support the implementation of performance pledges that give greater transparency and clear guidance as to the reasonable expectations of minimum service standards. This principle of transparency extends to everyday events and activities. Studies relating to utility works and roadworks have resulted in recommendations leading to notices on street excavations showing the expected date of completion and other details enabling identification of the contractor and contact persons.

Another area requiring good and complete public information is where more than one government department is involved in a process. For example, in licensing a restaurant, the hygiene, fire safety, structural safety and ventilation requirements all involve different departments in the Hong Kong licensing system. Satisfying these different requirements can be baffling for a licence applicant and good publicity to guide the applicant through the maze of the various licensing processes is essential. To be successful, this type of guidance needs to be easily available at low or zero cost and written in plain and non-technical language. The Department routinely gives advice on the structure and development of such information packages.

XI. OVERCOMING RESISTANCE TO CHANGE

Notwithstanding our progress in introducing initiatives to combat corruption, there is sometimes a degree of entrenched organisational resistance to change. Key decision makers may refuse to accept that the most effective way to reduce corruption and other workplace crime is to establish revised practices or procedures within the organisation that have an anti-corruption goal. Powerful individuals may also resist change because of habit or inertia, or fear of the unknown, or because they are afraid they do not have the necessary skills if the changes are implemented and they fear losing some of their power.

Organisations, like individuals, also sometimes resist change because of fear of the cost, or a perception that they do not have the necessary resources. Sometimes key decision-makers fail to understand the alternative. Subtle resistance is often embedded in the resource allocation procedures, with reluctance to adopt new policies or refusal to change an established policy.

Resistance typically involves affected groups such as middle managers, supervisors, units or groups who are opposed to a given corruption prevention strategy. In the worst case scenario there may be active opposition represented by :

- denial of the need for an anti-corruption strategy;
- refusal to recognise responsibility and accountability;
- refusal to implement an anti-corruption strategy initiative that has been adopted by the organisation; and
- sabotage or dismantling of an anti-corruption strategy after implementation has begun.

113TH INTERNATIONAL TRAINING COURSE
VISITING EXPERTS' PAPERS

Such potential resistance must be both recognised and managed. At the working level, our response is firstly to involve the client as deeply as possible in the assignment study so that they are committed to a successful outcome. Secondly, we attempt always to set standards, objectives or time lines against which progress may be assessed so that there is an effective means of monitoring implementation. In addition to formal monitoring studies, we also have standard follow-up procedures to track the level of acceptance of report recommendations and their implementation. This process has proved very successful and often gives rise to continuing liaison with the client and more extensive work.

XII. FACTORS FOR SUCCESS

The success we have achieved in fighting corruption and fostering change has been based on a number of factors, of which I shall nominate a few:

- support from the highest levels of government providing the political will, legislative framework and funding necessary to ensure our independence and focus on the job at hand;
- recruitment of staff with the skills and experience to deal with practical real life situations, such as accountants, engineers, quantity surveyors, ex-policemen and experienced public servants;
- involvement of the client in all phases of our studies - from the determination of the work to be done through to the development of prevention measures and how they are to be implemented;
- concentrating on more structured ways to exercise discretion such as inspection check lists, objective marking schemes for performance

monitoring and marking systems for tender assessment;

- adopting a more global approach to preventing corruption by examining not just the symptoms but the underlying causes such as poor management structures, poor morale, lack of information, unenforceable rules and inadequate legislation; and
- adherence to the principle of transparency.

XIII. NEW CHALLENGES

New challenges are emerging as a result of economic, social, political and technological changes. Hong Kong's rapid transition from a light manufacturing economy to a predominantly service-based economy has made anti-corruption work more complex and difficult, while the public expectation of effectiveness, transparency and accountability is rising.

New business structures are being created as the practices of outsourcing and privatisation or corporatisation have become more prevalent. Both public sector and private sector organisations now contract out a wider range of services ranging from data preparation and processing, management consulting and human resource functions, to research and development services, professional advice and the operation of independent business entities.

The outsourcing business model typically involves a small number of management professionals responsible for contracting, supervising and monitoring services provided by external firms such as contractors, manufacturers, third-party sales and distribution networks, and suppliers of corporate and administrative services. It represents a desire to focus on core business fundamentals in a drive to achieve world competitive practices and

realise benefits from improved access to specialist expertise.

Outsourcing brings with it greater demands for overall co-ordination and closer relationships between the various parties to the contract with a consequent shift towards new forms of performance monitoring and control, and different legal and contractual frameworks. Much of this trend is being driven and supported through developments in telecommunications and information technology.

Developments in outsourcing may introduce management issues having corruption implications. Close examination of the overall client and supplier alliance may reveal new areas where corruption can enter the process and affect the outcome. Since many operational activities are no longer performed solely "in-house", greater emphasis needs to be placed on the development of "self-regulatory" systems, with the adoption of appropriate Codes of Conduct.

The computer in its various guises now pervades every walk of life. Millions of dollars are handled daily over national and international networks, and personal information is captured for a myriad of transactions. Vast databases are being developed containing extremely detailed information on individuals and organisations. Information technology has provided new opportunities for data collection and management, facilitating demographic segmentation (data mining) and new and more extensive forms of management information analysis. With these developments have come associated concerns for the privacy and security of the financial and personal data and attendant corruption opportunities in the potential misuse of this data.

Some systems are undoubtedly well protected and properly resistant to security breaches, but the relaxed attitude of many organisations to information security stands in stark contrast to the procedures found necessary by banks and other financial institutions. An ever-present danger is that some computer systems, designed many years ago, still remain in operation and may be potentially subject to new forms of attack as companies move to embrace e-commerce.

One of the disturbing features is that too few organisations have undertaken any risk analysis of their own corporate information systems and may be unable to tell when or whether or not a crime has been committed. An essential task of the future will be to ensure that the integrity of these systems is not compromised by corruption. Appropriate physical barriers, software barriers, system administration controls, functional separation of key activities and the monitoring of critical transactions will be essential.

Procurement practices are also undergoing significant change as purchasers and suppliers grapple with best practice developments in supply sourcing and the complexities of international law, fair trade requirements and the impact of new technology. Some of the emerging technological developments include electronic commerce and electronic funds transfer and payment systems; interconnected materials procurement management and manufacturing systems; corporate card purchasing; and electronic tendering. The growth of the Internet and electronic commerce introduces the prospect of a new generation of information and monetary transfers that are more difficult to track and could make bribery payments less traceable.

113TH INTERNATIONAL TRAINING COURSE
VISITING EXPERTS' PAPERS

Each of these developments brings a new perspective to the maintenance of system integrity. They introduce problems associated with security and confidentiality that commonly form key elements in the typical chain of corruption. Management systems, which once seemed secure, may be prone to attack as organisations adapt to these changes.

XIV. OUR RESPONSES

As technology advances and political and economic boundaries begin to blur, corruption has taken on a global perspective and the need to develop regional and international liaison will continue to grow. To this end we have actively pursued a policy of greater involvement with our colleagues in other jurisdictions such as the Royal Canadian Police, the Australian Federal Police and the US Federal Bureau of Investigation. The ICAC now acts as the Regional Information Co-ordination Centre in the Asia-Pacific region and publishes a regular newsletter. This liaison with our counterparts will continue and expand.

The proven effectiveness of our corruption prevention work will ensure its continuation, albeit somewhat modified to take account of emerging trends. More expertise will be needed in systems and risk analysis and we have had a policy for some time of recruiting staff for prevention work with strong and up-to date computer and information technology skills.

Greater emphasis will be placed on managerial accountability in a more self-regulatory environment. The adoption of performance pledges, Best Practice approaches and quality management and quality assurance programmes already form part of our armoury. The introduction of specific probity-related clauses in tendering requirements and the

widespread introduction of appropriate Codes of Conduct is being strongly pursued.

We have expanded our capacity to assist both the public and private sectors by introducing a quick-response consultancy support system offering advisory services. Together with this more responsive approach, we have introduced a corruption prevention telephone hot-line.

In conjunction with the Community Relations Department's drive for expanded moral and ethical education programmes, we have taken a pro-active approach to enlisting greater support from the private sector with extensive mailings, visitation programmes and speaking engagements. In addition, we have embarked upon a series of targeted training and development seminars directed towards particular industry areas.

We have formulated no fewer than 15 Best Practice modules covering key industries and their operations which are now being widely distributed as part of our advisory services. These modules are designed to provide guidance to organisations developing or reviewing their own internal systems. In time, these modules should cover the majority of the key operational areas found to be prone to corruption.

Finally, in the midst of this change we have also grasped the benefits of new technology with revamped internal operational procedures and improved information technology capabilities. This will enable us to better analyse trends, perform better research and improve our overall productivity. These changes include expansion of our Internet Web presence to provide greater public access and enable us to reach a wider audience.

XV. CONCLUSION

The enforcement of a strong anti-corruption law based on a zero tolerance approach, backed by effective prevention and educational programmes, has had a marked impact in Hong Kong. The populace is sensitive to corruption issues and acutely aware of the ICAC role and mechanisms for reporting corruption. The community culture has changed from one of tolerance of corruption to rejection.

The nature of much corruption means that staff already working within an organisation are responsible for most failures. Internal access to administrative, operational and information networks therefore may present a far greater risk than the spectre of physical entry or external access. Software and system access controls subject to internal attack can easily become ineffective due to laxity, complacency, under-estimation of risk and undue reliance on trust.

Corruption prevention is an organisational, as well as individual, ethical responsibility. While corruption depends on individuals, it may be unwittingly encouraged or protected by certain features of an organisation's activities or structural deficiencies. Many problems can be traced back to poor control exercised by senior management.

An organisation can lift some of the burden from individuals, not only by placing greater emphasis on teams and shared decision-making, but also by adopting effective corruption prevention practices. The detection of corrupt practices is also a management responsibility, achieved partly by setting up effective supervisory and control systems, and also by managers being alerted to indicators of corruption.

Effective prevention programs will provide incentives for managers to educate themselves regarding the attitudes and values held by their subordinates, to locate the areas in which corruption is likely to occur, to exert positive leadership and more quickly curtail abusive and corrupt activities. Increasing awareness of corporate governance principles may see greater use of senior management performance indicators that include evidence of the implementation of effective fraud/corruption prevention plans and risk management strategies.

While the lessons to apply must take account of individual social and work ethics, there are a number of common features worth noting. Firstly, complex, unnecessary and unenforceable rules increase the risk of fraud or error with consequential increase in the likelihood of corruption. The solution may be to simplify the system.

Secondly, many licence, approval and benefit arrangements incorporate perverse actions and seek excessive detail unrelated to corruption or fraud preventive measures. The answer is to set minimum standards for efficient and effective administration and redirect resources to prevention strategies.

Thirdly, poor co-ordination, communication and co-operation between various agencies or organisations may facilitate corruption. Provided the system requirements meet the criteria of simplicity and effectiveness, the answer is to monitor service levels, measure performance against objective standards and penalise non-compliance through transparent mechanisms.

Prevention, however, involves more than risk assessment and the introduction of monitoring and supervisory reviews. It

113TH INTERNATIONAL TRAINING COURSE
VISITING EXPERTS' PAPERS

requires the development of an ethical culture reinforced by a code of conduct to deal with specific issues faced by staff. The code should address a variety of internal and external issues affecting the organisation, including the way it interacts with business associates.

With changing work patterns and increasing globalisation, the principles of individual and organisational integrity and accountability may need to be further reinforced. As governments and business alike strive to achieve their objectives in the most cost effective and efficient manner, business plans will need to take into account suitable corruption prevention strategies.

The Hong Kong experience is that with close co-operation between business, Government and the ICAC, the adoption of a broadly based and integrated preventive approach can realise the objectives of minimising corruption. The message we have given and will continue to send is a simple one. Corruption does not pay and will continue to be driven to the very margins of our society.