

CHAPTER 10

**THE GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION**

GENERAL REVENUE ACCOUNT

GOVERNMENT SECRETARIAT

**Security Bureau
Civil Service Bureau**

GOVERNMENT DEPARTMENT

Hong Kong Police Force

**Follow-up review of the problem of indebtedness of
some civil servants working in the Hong Kong Police Force**

**Audit Commission
Hong Kong
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FOLLOW-UP REVIEW OF THE PROBLEM OF INDEBTEDNESS OF SOME CIVIL SERVANTS WORKING IN THE HONG KONG POLICE FORCE

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FOLLOW-UP REVIEW OF THE PROBLEM OF INDEBTEDNESS OF SOME CIVIL SERVANTS WORKING IN THE HONG KONG POLICE FORCE

Summary and key findings

A. **Introduction.** It is necessary for the Government to tackle the problem of indebtedness of civil servants because unmanageable debts may affect a civil servant's performance, force him into corrupt practices or bring the civil service into disrepute. In 1993, Audit carried out a review on the action taken by the Government to deal with the problem of indebtedness of Police officers. After considering Audit's findings, in its Report No. 21 issued in January 1994, the Public Accounts Committee (PAC) recommended that the Commissioner of Police should take immediate action to identify Police officers with serious debts and to relieve them of pecuniary embarrassment (paras. 1.7 to 1.9).

B. In response to the PAC's recommendations, the Hong Kong Police Force (HKPF) has promulgated a policy on the management of indebtedness of Police officers. In addition, the HKPF has adopted a strategic approach to deal with the problem of staff indebtedness and issued administrative instructions (AIs) which provide guidelines on steps to be taken at various levels to identify and handle officers with unmanageable debts (OUDs). The HKPF has also strengthened its controls on processing applications for salary advances under Civil Service Regulation (CSR) 618 and applications for loans from the Police Welfare Fund (PWF) (para. 1.10).

C. **Audit review.** In late 1998, the PAC noted deterioration in the situation of indebtedness of Police officers as evidenced by the large increase in the number of OUDs. In its Report No. 31 issued in February 1999, the PAC urged the Director of Audit to monitor the situation closely and make a report to it in due course. Audit therefore carried out this follow-up review to: (a) assess the state of indebtedness of Police officers; and (b) examine the HKPF's measures for dealing with the problem of staff indebtedness to see if there is any room for improvement (paras. 1.13 and 1.14).

D. **The state of staff indebtedness.** In the HKPF, the number of OUDs decreased from 180 in the first half of 1994 to 75 in the first half of 1997. However, since the second half of 1997, this figure has increased to 165 in the first half of 1999. The HKPF explained that the financial turmoil in the second half of 1997 had a significant impact on the problem of staff indebtedness. This was evidenced by the reversal in the trend of the number of OUDs. Since the second half of 1997, the state of staff indebtedness has deteriorated rapidly. Audit considers that, in the long run, preventive measures directed at building up a culture of prudent financial management and healthy lifestyle in the HKPF are more effective than the corrective measures (paras. 2.1 to 2.3 and 2.18).

E. Other indicators of staff indebtedness, such as the percentage of staff involved in bankruptcies and the percentage of staff subjected to garnishee orders, have revealed that the Correctional Services Department and the Urban Services Department also have a serious problem of staff indebtedness. In early 1999, the Civil Service Bureau commissioned the Independent Commission Against Corruption (ICAC) to carry out a study to examine the measures taken by government departments to monitor the problem of serious indebtedness of staff. The study covered seven departments which had a large number of staff, including the HKPF. According to the findings of the ICAC study, in comparison, the measures taken by the other departments for dealing with the

problem of staff indebtedness were less proactive than those taken by the HKPF (paras. 2.19 and 2.20).

F. **HKPF's measures for dealing with the problem of staff indebtedness.** Audit has selected eight Police districts with a large number of OUD cases to examine the HKPF's measures for dealing with the problem of indebtedness of Police officers. Audit has observed that there is room for improvement in: (a) ascertaining the full extent of indebtedness of Police officers; (b) interviewing OUDs with serious debts; and (c) distributing the AIs (paras. 3.10 to 3.13, 3.17 to 3.18 and 3.22 to 3.23).

G. An audit examination of salary advances under CSR 618 and loans from the PWF has also revealed that there is a control weakness in the HKPF's procedures for processing applications for salary advances and applications for PWF loans. The procedures are ineffective in preventing the granting of both a salary advance and a PWF loan to the same officer for the same purpose (paras. 3.31 to 3.33).

H. **Audit recommendations.** Audit has made the following major recommendations that:

- (a) the Secretary for the Civil Service should urge those departments with a large number of staff indebtedness cases, such as the Correctional Services Department and the Urban Services Department, to take more proactive measures for dealing with the problem of staff indebtedness (second inset of para. 2.21);
- (b) the Commissioner of Police should continue to implement the existing measures for dealing with the problem of staff indebtedness, particularly those preventive measures directed at promoting and building up a culture of prudent financial management and healthy lifestyle among Police officers (first inset of para. 2.21);
- (c) the Commissioner of Police should instruct formation commanders that, when interviewing a Police officer to ascertain whether he has unmanageable debts, they should: (i) explain clearly to the officer the HKPF's policy on the management of indebtedness; and (ii) require the officer to confirm in writing that he has disclosed all his debts (para. 3.14);
- (d) the Commissioner of Police should: (i) emphasise in the AIs the importance of interviewing OUDs with serious debts on a monthly basis by formation commanders or deputy formation commanders; and (ii) ensure that this interviewing requirement is always complied with (para. 3.19);
- (e) the Commissioner of Police should: (i) distribute the AIs down to the level of Sergeants and Station Sergeants; and (ii) recirculate the AIs periodically (para. 3.24); and
- (f) the Commissioner of Police should strengthen the procedures for processing loan applications in order to detect and prevent an officer from applying for both a salary advance and a PWF loan for the same purpose (para. 3.34).

I. **Response from the Administration.** The Commissioner of Police, the Secretary for Security and the Secretary for the Civil Service have generally accepted the audit recommendations. The Commissioner of Correctional Services and the Director of Urban Services have also agreed to take more proactive measures to deal with the problem of staff indebtedness (paras. 2.22 to 2.29, 3.15 to 3.16, 3.20 to 3.21, 3.25 to 3.26 and 3.35).

PART 1: INTRODUCTION

The Government's policy on borrowing by civil servants

1.1 Civil servants are expected to have prudent financial planning. As the employer, the Government hopes that they maintain a balanced family budget. In general, this should not be too difficult, considering the steady nature of their income.

1.2 Occasionally, civil servants — like some members of the community — may run into financial problems which are beyond their normal means to cope with. The Government allows civil servants to obtain loans from permitted sources. However, if a civil servant solicits or accepts a loan other than from a permitted source, he is liable to disciplinary action or prosecution under the Prevention of Bribery Ordinance (Cap. 201).

1.3 Civil servants are regularly reminded to exercise judgement before obtaining huge loans in order to avoid falling into heavy debt. Indebtedness by itself does not constitute a disciplinary offence. However, under Civil Service Regulation (CSR) 455, serious pecuniary embarrassment is considered to have adverse effects on the efficiency of a civil servant. If the serious pecuniary embarrassment is occasioned by imprudence or other reprehensible cause, it may form the basis of a disciplinary charge.

Permitted sources of finance for civil servants

1.4 CSR 482 provides that civil servants may borrow money from:

- (a) the Government, in the form of advances of salary under the CSRs (Note 1);
- (b) departmental relief funds and welfare funds;

Note 1: *Under CSR 618, an officer may apply for a salary advance not exceeding the dollar value of Master Pay Scale Point 21 to cover the expenses for:*

- *moving to new accommodation;*
- *marriage of the officer or his child;*
- *funeral of a dependent;*
- *dependent child starting full-time overseas education; or*
- *civil proceedings or legal service connected with buying self-occupied accommodation.*

The advance is normally recovered by instalments deducted from the officer's monthly salary.

- (c) welfare funds of the disciplined services;
- (d) self-help thrift and credit cooperative societies and credit unions;
- (e) lending facilities provided by financial institutions; and
- (f) relations (Note 2).

1.5 Not all civil servants may avail themselves of all the sources of finance mentioned above. This is because some sources, such as welfare funds and credit unions of the disciplined services, are only available to a particular class of civil servants. For example, only civil servants working in the Hong Kong Police Force (HKPF) may borrow money from the Police Welfare Fund (PWF — Note 3) and the Hong Kong Police Credit Union (HKPCU — Note 4).

Indebtedness of civil servants

1.6 Civil servants are regularly advised to use their money wisely and to avoid incurring debts beyond their repayment capability. The common causes of civil servants becoming insolvent are excessive gambling and living beyond their means. Careful financial planning and adjustment of expenditure to accord with income will prevent them from falling into insolvency.

1.7 The Government needs to tackle the problem of indebtedness of civil servants. This is because if a civil servant is heavily in debt, it may affect his efficiency or performance, force him into corrupt practices or bring the civil service into disrepute. According to Civil Service Bureau (CSB) Circular No. 4/97 entitled “Indebtedness in the Civil Service”, while it is the responsibility of individual civil servants to ensure that their financial arrangements do not impair their work, management also has the responsibility to be aware of the circumstances of its staff and to look out for deterioration in performance which may result from pecuniary difficulties.

Note 2: *Civil servants are permitted to borrow money from their relations as defined in the Acceptance of Advantages (Governor’s Permission) Notice 1992. A relation means a spouse, parent, grandparent, child, brother, sister, etc.*

Note 3: *The PWF was set up under the Police Force Ordinance (Cap. 232) mainly for providing welfare loans and grants to civil servants working in the HKPF.*

Note 4: *The HKPCU is a credit union registered under the Credit Unions Ordinance (Cap. 119). The principal objective of the HKPCU is to encourage members to save. A membership spirit is also promoted among members by helping those who are in need with loans at low interest rates.*

Audit review in 1993

1.8 In 1993, Audit carried out a review on the effectiveness of the administrative arrangements and the action taken by the Government to deal with the problem of indebtedness of civil servants in general, and of those working in the HKPF in particular. The results of the review were reported in the Director of Audit's Report No. 21 of October 1993. The major audit findings were as follows:

- due to the CSB's decision in the early 1990s to terminate monitoring the overall state of indebtedness in the civil service, the HKPF was under less administrative pressure to find out the overall state of indebtedness in the HKPF. Consequently, many opportunities to help Police officers with heavy debts had been lost;
- the HKPF did not act adequately on the information passed to it by the Treasury about garnishee orders to identify Police officers with heavy debts (garnishee orders are issued by the Commissioner of Inland Revenue to recover defaulted tax by salary deduction and are signs of indebtedness of the officers concerned); and
- there was a lack of coordination within the HKPF in extending loans to Police officers. There were also no procedures to cross-check loan applications to the information from garnishee orders. Consequently, there existed the risk of over-lending to Police officers.

1.9 After considering the Director of Audit's findings, in its Report No. 21 issued in January 1994, the Public Accounts Committee (PAC):

- (a) expressed its concern about the Administration's lack of effectiveness in tackling the problem of indebtedness of Police officers;
- (b) expressed its concern that a disproportionately greater number of Police officers received garnishee orders when compared with civil servants generally;
- (c) recommended that action should be taken to find out the reasons for more cases of serious indebtedness among Police officers when compared with the rest of civil servants;
- (d) recommended that the Commissioner of Police should take immediate action to interview those Police officers who had received garnishee orders and were also repaying salary

advances under the CSRs and other loans so as to identify cases of serious indebtedness and to take appropriate action to relieve them of pecuniary embarrassment;

- (e) noted and supported the approach adopted by the Commissioner of Police in taking disciplinary action in cases of serious indebtedness;
- (f) noted that in the redesigning of the application form for salary advances, it was the Administration's intention to include a checklist to facilitate the processing of applications, and wished to be informed of the outcome of redesigning the application form;
- (g) expressed its concern about the Commissioner of Police's lack of action in the past to ensure that loans granted by the Government and the HKPCU had been well coordinated and that there had been no over-lending to Police officers; and
- (h) wished to be informed of the results of the indebtedness surveys conducted by the HKPF.

Measures for dealing with the problem of indebtedness of civil servants after the 1993 audit

1.10 The Government accepted the PAC's recommendations and implemented various measures to deal with the problem of indebtedness of civil servants. The HKPF has promulgated a policy on the management of indebtedness of Police officers, adopted a strategic approach to deal with the problem of staff indebtedness and issued a set of guidelines on steps to be taken at various levels to identify and handle officers with unmanageable debts (OUDs) (see paragraphs 3.1 to 3.9 below). The HKPF has also strengthened its controls on processing applications for salary advances under CSR 618 and applications for loans from the PWF (see paragraphs 3.27 to 3.30 below).

1.11 In late 1994, the CSB commissioned the Independent Commission Against Corruption (ICAC) to conduct a study of the problem of indebtedness in the civil service. The study covered eleven selected government departments. After considering the recommendations of the ICAC study, the CSB issued CSB Circular No. 4/97 (see paragraph 1.7 above) advising bureaux and departments to take the following measures to deal with the problem of indebtedness of civil servants:

- requiring all new appointees to declare and seek permission under the CSRs for any loans falling outside the permitted sources (see paragraph 1.4 above);

- conducting induction briefings for new appointees on the importance of prudent financial management;
- designating an officer (e.g. the departmental staff welfare officer) to manage and counsel indebted officers; and
- requiring supervisors to counsel subordinates suspected to have financial problems and to report to senior management cases where deterioration in a subordinate's performance is believed to be the result of indebtedness.

1.12 The Government has also revised the application form for salary advances under CSR 618 (GF 421) so that an officer applying for an advance is required to declare his outstanding loans on the application form to enable the approving officer to assess his repayment capability.

Follow-up audit review

1.13 Subsequent to the issue of the PAC's Report No. 21, the Government reported periodically to the PAC the results of the indebtedness surveys carried out by the HKPF on a half-yearly basis. In late 1998, the PAC noted deterioration in the situation of indebtedness of Police officers as evidenced by the large increase in the number of OUDs. In its Report No. 31 issued in February 1999, the PAC urged the Director of Audit to monitor the situation closely and make a report to it in due course.

1.14 Therefore, Audit has carried out this follow-up review to:

- assess the state of indebtedness of civil servants working in the HKPF by examining the results of the latest indebtedness surveys of the HKPF and various indicators of indebtedness available in the civil service and also by making reference to the state of indebtedness of civil servants working in other departments; and
- examine the HKPF's measures for dealing with the problem of indebtedness of civil servants working in the HKPF to see if there is any room for improvement.

PART 2: INDEBTEDNESS OF CIVIL SERVANTS WORKING IN THE HKPF

The state of indebtedness

LOUDs in the HKPF

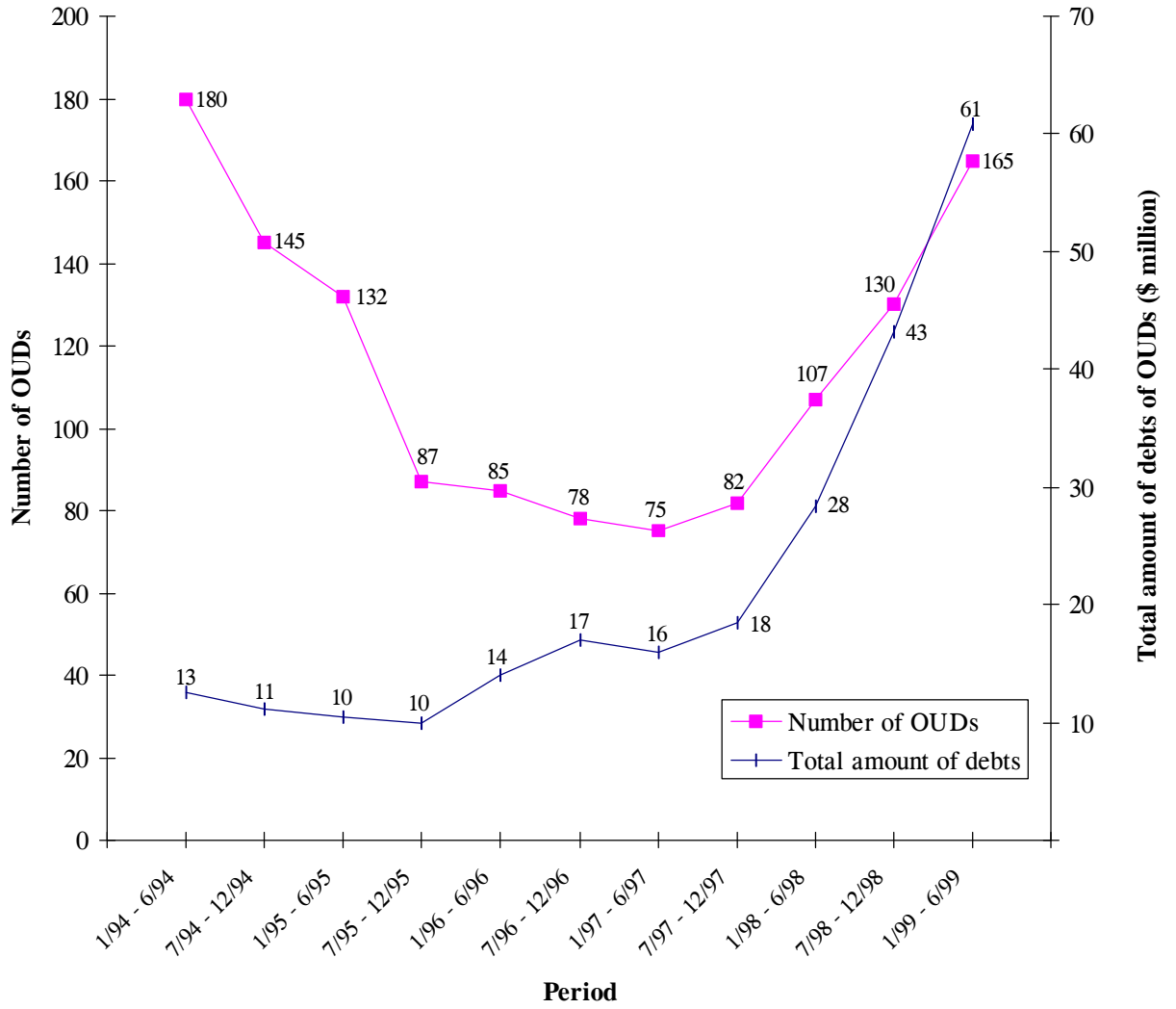
2.1 Through the half-yearly surveys carried out in all Police formations on the indebtedness of Police officers, the management of the HKPF is aware of the state of indebtedness of its staff. Appendix A shows the changes in the number of OUDs in the HKPF from January 1994 to June 1999. The number of OUDs decreased from 180 in the first half of 1994 to 75 in the first half of 1997. **However, since the second half of 1997, the number of OUDs has increased to 165 in the first half of 1999, which is more than twice that in the first half of 1997.**

2.2 Appendix B shows the amount of debts of OUDs from January 1994 to June 1999. The total amount of debts of OUDs has increased rapidly since the second half of 1997. **Furthermore, the average amount of debts of OUDs has increased gradually from \$69,723 in the first half of 1994, by more than four times, to \$369,090 in the first half of 1999.**

2.3 Figure 1 below shows graphically the changes in the number of OUDs and in the total amount of their debts from January 1994 to June 1999. The explanation given by the HKPF for the rapid increases in the number of OUDs and in the total amount of their debts since the second half of 1997 was that the financial turmoil in 1997 had a significant impact on Police officers and their family members, as it did on other members of the society. Investment and business failures of Police officers and their family members, to a certain extent, accounted for the rapid deterioration in the state of indebtedness of Police officers.

Figure 1

Changes in number of OUDs and total amount of debts
from January 1994 to June 1999

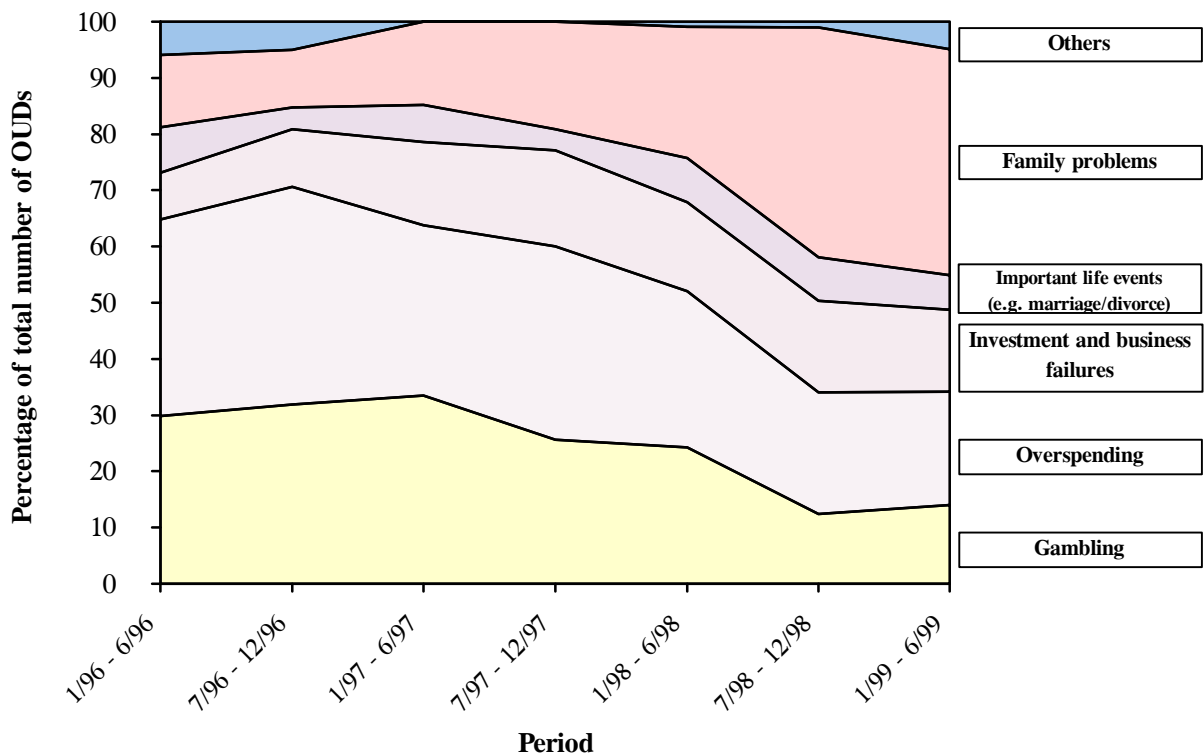


Source: HKPF's records

2.4 Figure 2 below provides an analysis of OUDs by major causes of unmanageable debts from January 1996 to June 1999. Gambling and overspending have always been the significant causes of unmanageable debts and family problems (such as gambling, overspending, investment and business failures of family members) have become another significant cause in recent years.

Figure 2

Analysis of OUDs by major causes of unmanageable debts from January 1996 to June 1999



Source: HKPF's records

Note: Data before 1996 are not available.

Serious pecuniary embarrassment and bankruptcy cases

2.5 Under the CSRs, the following mechanism exists for monitoring cases of indebtedness in the civil service:

- under CSR 456, departments are responsible for reporting to the CSB any case in which it appears that an officer is suffering from serious pecuniary embarrassment (Note 5);
- under CSR 458, an officer who becomes insolvent or bankrupt, even though no proceedings have been taken against him, is required at the earliest possible moment to submit a complete statement of the facts of his case to his department, for transmission to the CSB; and
- under CSR 459, the Official Receiver will report to the CSB every case of a public officer against whom any bankruptcy proceedings are taken.

2.6 Reports received from the Official Receiver under CSR 459 are cross-checked to the statements received under CSR 458. When an officer is found to have failed in submitting a statement of his bankruptcy to the CSB, his department will be advised to request him to do so in accordance with CSR 458. Disciplinary action may be taken against the officer for his failure to report his bankruptcy.

2.7 Appendix C shows those departments which have reported to the CSB five or more serious pecuniary embarrassment cases under CSR 456 from January 1994 to June 1999. Appendix D shows those departments which have reported to the CSB five or more bankruptcy cases under CSR 458 during the same period.

2.8 It can be seen from Appendix C that the total number of serious pecuniary embarrassment cases for the whole civil service showed an increasing trend from January 1994 to June 1999. **Among the three departments listed in Appendix C, the number of cases reported annually by the HKPF remained fairly stable. However, the number of cases reported annually by the Correctional Services Department (CSD) increased from two in 1995 to eleven in 1998.**

2.9 Compared with the increase in the total number of serious pecuniary embarrassment cases shown in Appendix C, the increase in the total number of bankruptcy cases shown in Appendix D is much more disturbing. While the total number of bankruptcy cases was 6 in 1994, it increased to 78 in 1998 and to 147 in the first half of 1999. **Among the ten departments listed in Appendix D, from January 1994 to June 1999, the Urban Services Department (USD)**

Note 5: *The CSRs do not provide a definition of “serious pecuniary embarrassment”. According to the ICAC study carried out in 1994 (see paragraph 1.11 above), some departments had difficulties in determining whether an officer was within the reporting requirement, resulting in non-submission of reports in some cases.*

reported the largest number of 72 bankruptcy cases while the CSD ranked second with 36 cases and the HKPF ranked third with 20 cases.

2.10 As can be seen from Appendix D, in the first half of 1999, the USD reported 41 bankruptcy cases, the CSD reported 23 cases and the HKPF reported 7 cases. **Taking into account the staff strength of the departments, in the first half of 1999, the CSD had the highest percentage of staff bankruptcy (0.33%), followed by the USD (0.26%). The HKPF had the lowest percentage (0.02%) among the ten departments listed in Appendix D.**

Salary deduction cases under garnishee orders

2.11 The Commissioner of Inland Revenue issues garnishee orders to employers to recover defaulted tax by deduction from the salary of employees. The number of garnishee orders issued to government departments is also an indicator of indebtedness in the civil service. According to the ICAC study carried out in 1994 (see paragraph 1.11 above), the percentage of civil servants subjected to salary deduction under garnishee orders was less significant when compared with the corresponding figure for the whole of Hong Kong.

2.12 Appendix E shows those departments with 500 or more salary deduction cases under garnishee orders from 1994-95 to 1998-99. It can be seen that the annual total number of cases for the whole civil service decreased by 17% from 3,898 in 1994-95 to 3,235 in 1998-99. **Among the seven departments listed in Appendix E, the three departments with the largest number of cases during this period were the HKPF (4,338 cases involving \$51.3 million), the CSD (1,926 cases involving \$22.2 million) and the USD (1,701 cases involving \$8.9 million). During this period, the HKPF had the largest decrease in the annual number of cases, from 1,254 in 1994-95 to 651 in 1998-99.**

2.13 **Taking into account the staff strength of the seven departments, it can be seen in Appendix F that in 1998-99, the CSD had the highest percentage of staff (5.5%) subjected to salary deduction under garnishee orders. The USD ranked second (2%) and both the HKPF and the Fire Services Department ranked third (1.9%). From 1994-95 to 1998-99, the HKPF had the largest decrease in the percentage of staff subjected to salary deduction under garnishee orders (from 3.8% in 1994-95 to 1.9% in 1998-99).**

Salary advances under CSR 618

2.14 The number of cases of salary advance under CSR 618 is also an indicator of indebtedness in the civil service. Appendix G shows those departments with 2,500 or more cases of salary advance under CSR 618 from 1994-95 to 1998-99. **Among the nine departments listed in Appendix G, the two departments with the largest number of cases during this period were the HKPF (17,470 cases) and the Fire Services Department (5,780 cases).**

2.15 **Taking into account the staff strength of the nine departments, it can be seen in Appendix H that in 1998-99, the Customs and Excise Department had the highest percentage of salary advance cases (11.5%). The CSD ranked second (10.2%) and the HKPF ranked third (10.0%). In fact, the top five departments were all disciplined services departments. Most of**

the staff of these departments are provided with departmental quarters. Compared with other civil servants, they have greater chances of changing accommodation and hence they may need to obtain salary advances more frequently to cover the expenses for changing accommodation. This may account for the higher percentages of salary advance cases in the disciplined services departments than in the civilian departments.

Loans from PWF and HKPCU to the HKPF's staff

2.16 As mentioned in paragraph 1.5 above, civil servants working in the HKPF may borrow money from both the PWF and the HKPCU. The HKPF collects information on loans from these two sources in the half-yearly surveys on the indebtedness of Police officers. Appendix I shows the number of loans from the PWF and the HKPCU granted to civil servants working in the HKPF from 1994 to 1998. Appendix J shows the total amount of loans from these two sources from 1994 to 1998. **It can be seen that, during this period:**

- **in terms of both the number and the total amount, loans from the HKPCU were much more than those from the PWF; and**
- **the total amount of loans from the HKPCU increased substantially. This substantial increase was partly due to the increase in the number of loans, and partly due to the raising of the loan ceiling by the HKPCU from \$90,000 to \$108,000 in April 1995 and to \$120,000 in January 1997.**

2.17 Audit has noted that:

- according to the information supplied by the HKPCU, the HKPCU acts prudently in extending loans to its members. In processing a loan application, it will assess:
 - (i) the appropriateness of the purpose of the loan;
 - (ii) the past repayment and savings records of the applicant; and
 - (iii) the repayment capability of the applicant; and
- according to the results of the half-yearly surveys carried out by the HKPF, loans from financial institutions (other than the HKPCU) account for over 90% of the debts of OUDs.

Audit observations

2.18 Audit observed that, during the period 1994 to the first half of 1997, the HKPF was successful in containing the problem of staff indebtedness as evidenced by the decrease in the

number of OUDs. This could be attributed to the measures taken by the HKPF to deal with this problem. However, according to the HKPF (see paragraph 2.3 above), the financial turmoil in the second half of 1997 had a significant impact on this problem. This was evidenced by the reversal in the trend of the number of OUDs. Since the second half of 1997, the state of staff indebtedness has deteriorated rapidly. **Audit considers that, in the long run, preventive measures directed at building up a culture of prudent financial management and healthy lifestyle in the HKPF are more effective than the corrective measures.**

2.19 **Taking into consideration the other indicators of indebtedness (such as the percentage of staff involved in bankruptcies and the percentage of staff subjected to garnishee orders), there are indications that the CSD and the USD also have a serious problem of staff indebtedness (see paragraphs 2.9 to 2.10 and 2.12 to 2.13 above).**

2.20 Audit noted that in early 1999, in view of the increase in the number of bankruptcy cases in the civil service, the CSB commissioned the ICAC to carry out another study, similar to the one in 1994, to examine again the measures taken by government departments to monitor the problem of serious indebtedness of staff. The ICAC study covered seven departments which had a large number of staff, including the HKPF (Note 6). The ICAC completed the study in July 1999. **According to the findings of the 1999 ICAC study, in comparison, the measures taken by the other departments for dealing with the problem of staff indebtedness were less proactive than those taken by the HKPF.**

Audit recommendations

2.21 **Audit has recommended that:**

- **the Commissioner of Police should continue to implement the existing measures for dealing with the problem of staff indebtedness, particularly those preventive measures directed at promoting and building up a culture of prudent financial management and healthy lifestyle among Police officers; and**
- **the Secretary for the Civil Service, who is responsible for the overall monitoring of staff indebtedness in the civil service, should urge those departments with a large number of staff indebtedness cases, such as the CSD and the USD, to take more proactive measures for dealing with the problem of staff indebtedness.**

Response from the Administration

2.22 The **Commissioner of Police** has said that the HKPF's attitude towards the problem of staff indebtedness is evident from the amount of resources and efforts committed to the prevention, identification and handling of OUDs. Exploration and introduction of new measures

Note 6: *The seven departments covered by the ICAC study were the HKPF, the CSD, the Customs and Excise Department, the USD, the Housing Department, the Water Supplies Department and the Electrical and Mechanical Services Department.*

are the HKPF's on-going exercises to contain the problem. Since 1997, the HKPF has launched the "Healthy Lifestyle" campaign directed at building up a culture of prudent financial management and healthy lifestyle among its staff. There is no doubt that the HKPF will continue to adjust its strategies and activities to cope with the ever changing internal and external environment.

2.23 The Commissioner of Police has also commented as follows:

- (a) **General.** Based on the examination of the various indicators mentioned in sub-paragraphs (b) to (g) below, there is an impression that the HKPF's staff indebtedness problem is not particularly serious within the civil service. Similarly, based on the statistics of the Official Receiver's Office on bankruptcy cases and the statistics of the Inland Revenue Department on tax default cases (see sub-paragraphs (d) and (e) below), the HKPF's staff indebtedness problem is also not particularly serious when compared with the general situation in Hong Kong. In view of the numerous initiatives taken and continuous efforts made by the HKPF to enhance the measures for tackling the staff indebtedness problem, the measures taken by the HKPF are, in general, comprehensive and effective;
- (b) **Number of OUDs.** Although the number (165 OUDs) in the first half of 1999 is more than twice that of the lowest level (75 OUDs) in the first half of 1997, it is still lower than that (180 OUDs) in the first half of 1994, when the first survey on staff indebtedness was conducted;
- (c) **Cases of serious pecuniary embarrassment.** In the absence of a clear definition of "serious pecuniary embarrassment", the number of serious pecuniary embarrassment cases reported under CSR 456 may not clearly indicate the state of staff indebtedness of a department. In the ICAC study carried out in 1994, it was suggested that some departments did not report cases of this nature to the CSB;
- (d) **Bankruptcy cases.** According to the statistics of the Official Receiver's Office, the number of bankruptcy cases in Hong Kong increased from 420 in 1994 to 1,362 in 1998, and to 684 in the first half of 1999. This shows that the increase in the number of bankruptcy cases in the HKPF in 1998 and in the first half of 1999 was in line with the general trend in Hong Kong. This increase was probably due to the financial turmoil in the second half of 1997 and the amendment of the Bankruptcy Ordinance (Cap. 6) which took effect in April 1998 (see paragraph 2.27(c) below);
- (e) **Salary deduction cases under garnishee orders.** According to the statistics of the Inland Revenue Department, the tax default rate for Hong Kong was about 14% in 1997-98. The tax default rate for the HKPF was much lower as it was 2.1% in 1997-98 and 1.9% in 1998-99 (see Appendix F);
- (f) **Salary advance cases.** The purposes of 61% of the salary advance cases in the first half of 1999 were to cover the expenses for moving to new accommodation. This tallies with Audit's observation that the high percentages of salary advance cases in the disciplined services departments could be linked to the availability of departmental quarters in these

departments. This also shows that the percentage of salary advance cases may not be reflective of the state of staff indebtedness of a department; and

- (g) ***Loans from the HKPCU.*** Only members of the HKPCU can borrow money from the HKPCU. Between 1994 and 1998, the number of members of the HKPCU increased, on average, at 5.2% per annum. An increased membership could be a contributing factor to the increase in the number of loans from the HKPCU.

2.24 The **Secretary for Security** has said that:

- (a) she agrees with the audit observation that, in the long run, preventive measures directed at building up a culture of prudent financial management and healthy lifestyle in the HKPF are more effective than corrective measures. The HKPF's management holds the same view that promoting healthy lifestyle and inculcating values of integrity and honesty among Police officers are the best solutions to the problem of staff indebtedness;
- (b) she agrees with the audit recommendation that the HKPF should continue to implement the existing measures promoting prudent financial management and healthy lifestyle. Although the HKPF's management has already implemented a wide variety of measures ranging from seminars on financial management to publicity campaigns on healthy lifestyle, she welcomes any suggestions of new measures in these areas;
- (c) the CSD has all along taken a serious view on the problem of staff indebtedness. It has faithfully followed the relevant CSRs and has developed a sophisticated system to tackle the problem. She supports the positive stance of the CSD and welcomes its latest strategic plan and package of proactive measures formulated in the light of Audit's findings to monitor and tackle the problem of staff indebtedness (see paragraph 2.26(f) below); and
- (d) the HKPF and the CSD would take further steps to improve their measures drawing reference from the audit recommendations. She will continue to work closely with the disciplined services departments to address the problem of staff indebtedness.

2.25 The **Secretary for the Civil Service** has said that a working group has been formed by the CSB and the ICAC under the Civil Service Integrity Programme to review central guidelines relating to conflict of interest. The scope of the review currently undertaken by the working group includes CSB Circular No. 4/97 "Indebtedness in the Civil Service", CSB Circular Memorandum No. 28/91 "Money Lending and Borrowing by Civil Servants and Sources of Finance" and related CSRs. The working group is also considering the report of the ICAC study of "Indebtedness in the Civil Service" issued in July 1999 (see paragraph 2.20 above). The audit recommendations are noted and will be taken into account by the working group in its deliberations on the report of the ICAC study.

2.26 The **Commissioner of Correctional Services** has commented as follows:

- (a) **General.** The CSD does not and will not tolerate any substandard performance, particularly the substandard performance of staff with unmanageable debts. All along, the CSD has acted in line with the relevant CSRs with a view to properly monitoring cases of staff indebtedness;
- (b) **Cases of serious pecuniary embarrassment.** Since 1996, the CSD has steered to proactively handling cases of staff indebtedness. Any evidence indicating that a staff member might be involved in indebtedness has been carefully looked into. Hitherto, the CSD has reported a large number of cases of serious pecuniary embarrassment to the CSB. The number of cases for 1996, 1997, 1998 and the first half of 1999 was 8, 8, 11 and 5 respectively (see Appendix C);
- (c) **Bankruptcy cases.** Of the 23 bankruptcy cases reported to the CSB for the first half of 1999, investment and business failures of family members accounted for eleven cases. Other causes included overspending (six cases), gambling (two cases), overspending and investment failure (two cases), and important life events of family members (two cases). These bankruptcy cases were largely due to the unexpected financial turmoil in 1997;
- (d) **Salary deduction cases under garnishee orders.** As regards the annual number of salary deduction cases under garnishee orders, the figures for the CSD remained fairly constant from 1994-95 to 1998-99 (see Appendix E). According to the ICAC study carried out in 1994, the percentage of civil servants subjected to salary deduction under garnishee orders was less significant when compared with the corresponding figure for the whole of Hong Kong;
- (e) **Salary advance cases.** As regards the percentage of salary advance cases to staff strength, the CSD ranked second (10.2%) in 1998-99. In fact, the number of salary advance cases for the CSD dropped from 871 in 1994-95 to 719 in 1998-99 (see Appendix G); and
- (f) **CSD's measures for dealing with the problem of staff indebtedness.** The CSD takes a very serious view on the problem of staff indebtedness. The broad aim of both the CSD and individual staff members would be "Living within our Means". The CSD will formulate an overall strategic plan to address this problem and will implement the following proactive measures in future:
- (i) a steering group will be formed to identify and research into the wider causation factors and issues of staff indebtedness, individual cases of staff indebtedness, and the strategy for prevention and handling of staff with unmanageable debts;
 - (ii) a thematic training session on "Prudent Personal Financial Management" will be given to new recruits and incorporated into the in-service training at the institutional level. It aims at promoting financial prudence through educational programmes and healthy lifestyle so as to prevent staff from falling into pecuniary embarrassment;

- (iii) the departmental and institutional management will watch the trend of meaningful indicators to monitor the problem of staff indebtedness;
- (iv) Regional Chief Officers (Staff Relations and Welfare) will conduct regular interviews with known cases of staff indebtedness and give advice and assistance, whenever necessary, to the officers concerned;
- (v) cases of staff indebtedness warranting in-depth counselling will be referred to the Clinical Psychologist of the CSD; and
- (vi) a tailor-made package of management measures will be devised to deal with each case of staff indebtedness.

2.27 The **Director of Urban Services** has said that:

Bankruptcy cases

- (a) she noted the increase in the number of bankruptcy cases with great concern. The 72 bankruptcy cases are cumulated since 1994. Prior to 1998, there were only four bankruptcy cases in the USD (see Appendix D). Against the USD's establishment of 16,000, these 72 cases represent 0.5% of staff. In all these cases, the officers concerned are not required to handle public money;
- (b) the financial turmoil which affected the economy as a whole in 1997 had a great impact on the USD's staff and their family members, as it had on the average citizen. About 55% of these 72 bankruptcy cases were due to investment failure of the officers concerned or their family members;
- (c) the amendment of the Bankruptcy Ordinance which took effect on 1 April 1998 could be one of the reasons for the drastic increase in the number of bankruptcy cases. Of these 72 bankruptcy cases, 68 occurred in 1998 and the first half of 1999. Under the amended Bankruptcy Ordinance, a person who is declared bankrupt for the first time may be discharged from bankruptcy if he repays his creditors in accordance with a court order in a four-year period. Before the amendment, a person would not be discharged from bankruptcy until all his debts had been cleared. Some people may have chosen bankruptcy as an option to clear their debts;
- (d) in each of these 72 bankruptcy cases, when the officer concerned reported bankruptcy, the USD immediately notified the officer's supervisor to ensure that the officer was not required to handle public money. In addition, the supervisor was also asked to report whether the performance of the officer was affected by bankruptcy. In all these cases, the reports indicated that these officers' performance was not unduly affected. The USD will continue monitoring the performance of these officers;

- (e) the USD has also provided assistance on a personal level to officers having financial problems. In accordance with CSB Circular No. 4/97, the Staff Welfare Officer is designated as the officer to counsel staff with financial problems. In fact, in some of these 72 bankruptcy cases, the officers concerned approached the Staff Welfare Officer for advice before declaring themselves bankrupt. The Staff Welfare Officer will follow up these cases to provide assistance and counselling wherever possible and to remind the officers concerned of the importance of prudent financial management. The USD noted that in some of these cases, the officers concerned found that the bankruptcy orders had helped relieve them of the pressure of repaying creditors;

Salary deduction cases under garnishee orders

- (f) of the over 300 salary deduction cases under garnishee orders in 1998-99, there were only six cases where the officers concerned declared bankrupt subsequently. As such, it may not be appropriate to reckon that there is a strong correlation between salary deduction under garnishee orders and unmanageable debts. The USD considers it prudent not to over-react in dealing with salary deduction cases under garnishee orders;
- (g) nevertheless, the USD would closely monitor such cases. Experience indicates that salary deduction under garnishee orders is only one sign of indebtedness. If an officer is in debt, there are often other signs of indebtedness such as receipt of enquiry letters from financial institutions and request from the officer for payment of salary in cash. The USD would watch out for officers with financial problems when they show a combination of signs of indebtedness. However, the USD has no authority to require the officers to divulge private information concerning their debts. The USD can only remind them that, in accordance with CSR 455, serious pecuniary embarrassment which impairs efficiency, if occasioned by imprudence or other reprehensible cause, may form the basis of a disciplinary charge;

USD's measures for dealing with the problem of staff indebtedness

- (h) the USD is conscious of the need to give early and proper guidance to staff on prudent financial management and has issued a handbook on integrity and ethics which advises staff to avoid risky investment and excessive gambling. Despite what has been done, the USD agrees that, judging from the number of bankruptcy cases, the problem of indebtedness among its staff is quite serious. However, it is difficult to identify officers with unmanageable debts other than those for whom the USD has received enquiries from lending institutes. Under the present system, whenever an enquiry is received from a lending institute, the USD would immediately alert the supervisor of the officer concerned and ask him to take action:

- (i) to ensure that the officer is not required to handle public money;
 - (ii) to monitor the officer's performance; and
 - (iii) to ascertain discreetly whether he has unmanageable debts; and
- (i) in strengthening its monitoring system on staff indebtedness, the USD will seriously consider adopting the measures currently implemented in the HKPF. However, not all the HKPF's measures can be implemented in civilian departments. To strengthen its current monitoring system on staff indebtedness, the USD is considering to adopt the following improvement measures:
- (i) drawing up a list of signs of indebtedness for reference by supervisors;
 - (ii) providing more comprehensive guidelines to supervisors to facilitate the identification of officers with unmanageable debts;
 - (iii) enhancement of training sessions for new appointees and serving staff on the importance of prudent financial management; and
 - (iv) enhancement of advice and counselling to officers who have financial problems, as far as circumstances permit.

2.28 The **Commissioner of Customs and Excise** has said that while he agrees that salary advance can be taken as a reference for indebtedness, he would like to confirm that none of the officers of the Customs and Excise Department who applied for salary advance encountered financial difficulties. Salary advance is considered among most officers of the department as a kind of welfare entitlement. The Service Welfare Officer of the department who handles salary advance applications is also designated to manage staff indebtedness cases. The Service Welfare Officer will process every salary advance application with due consideration of the financial situation of the officer concerned. This will assist the Service Welfare Officer to identify officers with suspected indebtedness and to make discreet enquiries. There is an established system in the department for counselling indebted officers and providing assistance in re-scheduling loan repayments.

2.29 The **Director of Fire Services** has said that the problem of staff indebtedness in the Fire Services Department is not serious.

PART 3: HKPF'S MEASURES FOR DEALING WITH THE PROBLEM OF STAFF INDEBTEDNESS

HKPF's policy on the management of indebtedness

3.1 The HKPF has promulgated a policy on the management of staff indebtedness. The policy states, among others, that:

- a Police officer shall be temperate and prudent in his financial affairs. Serious pecuniary embarrassment from whatever cause is regarded as a circumstance which impairs his efficiency and is not acceptable. It is an officer's responsibility to ensure that he lives within his means and does not incur expenses which he is unable to afford;
- the HKPF takes a sympathetic view towards Police officers who become indebted due to unforeseen and/or compassionate circumstances and will provide every assistance to enable them to meet their debts;
- there is, however, no sympathy for Police officers where:
 - (i) they have been involved in illegal gambling, gambling at police premises or gambling while on duty;
 - (ii) they have borrowed money other than in accordance with Police General Order (PGO) 6-01 (4) (see paragraph 3.2 below); or
 - (iii) their efficiency has been impaired by serious pecuniary embarrassment. Serious pecuniary embarrassment includes cases where there is little hope for the officer clearing his debts in the foreseeable future; and
- management of indebtedness is primarily a command responsibility. Every supervisory officer in the HKPF has a responsibility to look out for indicators of indebtedness among officers under his command and to take follow-up action.

3.2 Two PGOs are relevant to the issue of indebtedness. PGO 6-01 (4) states that a Police officer shall not borrow money other than from the permitted sources (see paragraph 1.4 above). PGO 6-01 (8) states that a Police officer shall be prudent in his financial affairs and that serious pecuniary embarrassment from whatever cause is regarded as a circumstance which impairs his efficiency. A Police officer in breach of a PGO can be charged under the Police (Discipline) Regulation of the Police Force Ordinance (Cap. 232) for the offence of contravention of an order.

3.3 Appendix K shows the number of Police officers adjudicated of having committed debt-related disciplinary offences, such as borrowing from loansharks and financial imprudence

with performance impairment, from 1994 to 1998. The punishment given for these offences is shown in Appendix L. **It can be observed that the punishment was severe as nearly 75% of these officers had to leave the HKPF.**

HKPF's measures for dealing with the problem of indebtedness

The strategic approach

3.4 The HKPF has adopted a strategic approach to deal with the problem of indebtedness of Police officers. The approach emphasises taking measures in:

- preventing officers from becoming OUDs through education and publicity;
- identifying OUDs; and
- handling OUDs.

3.5 The Staff Relations Group of the HKPF has the role of coordinating the measures that deal with the problem of indebtedness of Police officers. The preventive measures which have been implemented by the HKPF so far include:

- (a) “Healthy Lifestyle” campaign organised since 1997 to promote physical fitness, mental well-being and financial prudence through a series of educational and recreational programmes;
- (b) “Living the Values” workshops (Note 7) organised since 1997 to promote the values of the HKPF such as integrity and honesty, trust and internal communications;
- (c) lectures on prudent financial management and the pitfalls of indebtedness delivered periodically to new recruits and serving officers;
- (d) advice on prudent financial management and the pitfalls of indebtedness given in the HKPF's internal publication “OffBeat”;

Note 7: *The HKPF has organised a number of “Living the Values” workshops since the issue of its “Vision and Statement of Common Purpose and Values” in late 1996. The purposes of the workshops are for Police officers to explore the HKPF's values and to identify barriers to living with these values and ways of removing these barriers.*

- (e) publicity through posters and educational pamphlets on the evils of gambling and overspending, the desirability of living a simple life and the importance of peer group support (four of these posters are reproduced in Figures 3 to 6 on the centre pages); and
- (f) a pilot study, conducted in December 1998 to January 1999, on the lifestyle of junior officers with two to three years of service to collect information about the causes of indebtedness so as to draw up further preventive measures.

3.6 The measures taken by the HKPF to identify OUDs include:

- (a) issuing a comprehensive list of indebtedness indicators to help supervisory officers identify those staff with unmanageable debts;
- (b) interviewing the staff concerned upon showing signs of indebtedness;
- (c) conducting team building exercises during training days organised by Training and Staff Relations Officers (TSROs) periodically to enhance trust between management and staff so as to encourage problematic staff to come forward early for assistance; and
- (d) requiring staff to notify their supervisors of private visits to the Mainland and Macau.

3.7 After OUDs have been identified, their problem will be closely monitored. The monitoring measures include:

- (a) removing OUDs from sensitive postings;
- (b) assisting OUDs in drawing up a loan repayment schedule;
- (c) carrying out monthly interviews with OUDs by TSROs to provide counselling and assistance and to check the progress of loan repayment;
- (d) carrying out monthly interviews with OUDs by formation commanders and forwarding quarterly progress reports to the Staff Relations Group for OUDs with debts exceeding \$100,000;
- (e) organising stress management workshops for OUDs; and
- (f) conducting half-yearly surveys on indebtedness.

The Administrative Instructions

3.8 The Commissioner of Police has issued a set of detailed guidelines entitled “Administrative Instructions as to the Management of Indebtedness” (AIs). The AIs provide steps to be taken at various levels for dealing with the problem of indebtedness of Police officers. The major part of the AIs addresses the identification and handling of OUDs. Appendix M is a flow chart which shows the steps for identifying and handling OUDs.

New measures for dealing with the problem of indebtedness

3.9 The HKPF has planned to introduce the following two new measures for dealing with the problem of indebtedness of Police officers more effectively:

- issuing warning letters to OUDs requiring them to make efforts to improve their financial status and to notify their formation commanders on acquiring new loans; and
- as an employment criterion, requiring applicants seeking first appointment or re-employment with the HKPF to declare their debts. The amount of debts of an applicant will be taken into account in deciding whether appointment or re-employment will be offered to the applicant.

Legal advice has been obtained on these new measures. The Department of Justice has confirmed that they are legitimate and are not inconsistent with the Hong Kong Bill of Rights Ordinance (Cap. 383).

Audit examination of the HKPF’s measures for dealing with the problem of indebtedness

3.10 There are 23 Police districts in the HKPF. Audit has selected eight Police districts with a large number of OUD cases to examine the HKPF’s measures for dealing with the problem of indebtedness of Police officers. Audit has found that there is room for improvement in:

- ascertaining the full extent of indebtedness of Police officers;
- interviewing OUDs with serious debts by formation commanders or deputy formation commanders; and
- distributing the AIs.

Audit observations on ascertaining the full extent of indebtedness

3.11 Enquiry letters from financial institutions or debt collection agencies are indicators of unmanageable debts. According to the AIs, when an enquiry letter is received from a financial institution or a debt collection agency, the officer concerned will be interviewed by his supervisor with a view to ascertaining whether he has unmanageable debts. In the interview, it is important for the management to ascertain all the debts of the officer. It is possible that:

- (a) the officer will not be classified as an OUD. Timely action is then not taken by the management to assist the officer and monitor his indebtedness. There is the risk that:
 - (i) the officer may continue to incur more debts, as he may continue to indulge in gambling or overspending; or
 - (ii) in order to cover up his undisclosed debts, the officer may commit acts which bring himself and the HKPF into disrepute; or
- (b) the officer will be classified as an OUD. However, since the officer has not disclosed all his debts to the management, efforts to assist the officer and monitor his indebtedness will become ineffective. For example, the officer may not be able to adhere to the loan repayment schedule which has not taken into account his undisclosed debts. The efforts of the Police Welfare Officer in negotiating with the officer's creditors to draw up the loan repayment schedule may then become abortive.

3.12 **Audit observed that some officers had a tendency to conceal the seriousness of their indebtedness. Among the 87 OUD cases examined by Audit in the eight Police districts, there were 43 cases in which the officer concerned had concealed the full extent of his indebtedness.** The possible reasons were that:

- the officer concerned did not have a clear understanding of the HKPF's policy on the management of indebtedness that unmanageable debts would not always result in disciplinary punishment; and
- he was afraid of disciplinary punishment.

3.13 Audit also observed that there was inconsistency in carrying out the interviews for identifying OUDs. Some Police districts required the officer concerned to make a written statement of his debts and to state explicitly in the written statement that he had disclosed all his debts. Under such circumstances, the officer concerned would be aware that if he did not disclose all his debts, he was making a false statement and thus was committing a disciplinary offence. Therefore, there was more pressure on him to disclose all his debts. **However, this practice was not followed consistently in the eight Police districts examined by Audit.**

Audit recommendations on ascertaining the full extent of indebtedness

3.14 In order to make the interview more effective, Audit has *recommended* that the Commissioner of Police should instruct formation commanders that, when interviewing a Police officer to ascertain whether he has unmanageable debts, they should:

- explain clearly to the officer the HKPF's policy on the management of indebtedness;
- require the officer to make a written statement of his debts; and
- require the officer to confirm in writing that he has disclosed all his debts.

Response from the Administration

3.15 The Commissioner of Police has said that:

- the HKPF regularly communicates its policy on the management of indebtedness to Police officers at all levels through effective channels. While some OUDs may conceal part of their debts for various reasons, there is no evidence that they do so due to a lack of understanding of the policy. In fact, it is not unusual for OUDs not being able to remember how much they owe and to whom; and
- the HKPF will adopt the audit recommendations since they aim to enhance understanding of the policy and to standardise the current practice.

3.16 The Secretary for Security has said that she supports the audit recommendations.

Audit observations on interviewing OUDs by formation commanders

3.17 The AIs specify that an OUD with debts exceeding \$100,000 shall be interviewed by the formation commander or the deputy formation commander on a monthly basis. These interviews serve the following useful purposes:

- OUDs are given the message that the management is very concerned about their indebtedness; and
- the management can ascertain whether necessary action on OUDs has been taken promptly.

3.18 However, in two out of the eight Police districts examined by Audit, this interviewing requirement had not been complied with, apparently because the purposes of the interviews are not stated explicitly in the AIs. Furthermore, there is no mechanism for ensuring compliance with this interviewing requirement.

Audit recommendations on interviewing OUDs by formation commanders

3.19 Audit has *recommended* that the Commissioner of Police should:

- state explicitly in the AIs the purposes of the monthly interviews with OUDs by formation commanders or deputy formation commanders which should include showing the management's concern about OUDs and ensuring that necessary action on OUDs (e.g. need for changing posts, drawing up loan repayment schedules and counselling) has been taken promptly;
- emphasise in the AIs the importance of compliance with the interviewing requirement mentioned in the first inset above; and
- ensure that this interviewing requirement is always complied with (e.g. by requiring the Staff Relations Group to regularly check the case files of OUDs).

Response from the Administration

3.20 The Commissioner of Police has said that:

- due to administrative oversight, the district commanders/deputy district commanders of the two Police districts had on some occasions omitted to carry out monthly interviews with OUDs with serious debts. These cases of non-compliance with the AIs were isolated incidents and the matter has been rectified since early 1999. The two districts have now introduced a new monitoring system to ensure full compliance; and
- the HKPF will adopt the audit recommendations in full. Administrative procedures identical to the audit recommendations have already been included in the revised AIs (which at present are in consultation stage and have not yet been promulgated).

3.21 The Secretary for Security has said that she agrees in principle with the audit recommendations, subject to the HKPF's comments from an operational point of view.

Audit observations on distribution of AIs

3.22 The AIs specify the measures for dealing with the problem of indebtedness of Police officers. They provide useful information and guidelines to supervisory officers who have to be alert in identifying and handling OUDs. **At present, distribution of the AIs (in English) is only down to the level of sub-unit commanders who are usually Police Inspectors. Sergeants and Station Sergeants, who also play a supervisory role, may not be aware of the AIs and may therefore have difficulties in identifying and handling OUDs among their subordinates. Audit considers that, to obtain the maximum benefit from the AIs, it is necessary for the AIs to be made available to Sergeants and Station Sergeants. A Chinese translation of the AIs may be helpful to some of these officers.**

3.23 Furthermore, as the AIs provide useful information and guidelines for identifying and handling OUDs, Audit considers that the HKPF should recirculate the AIs periodically as a reminder to all supervisory officers.

Audit recommendations on distribution of AIs

3.24 Audit has *recommended* that the Commissioner of Police should:

- distribute the AIs down to the level of Sergeants and Station Sergeants so as to assist them in identifying and handling OUDs among their subordinates; and
- recirculate the AIs periodically (say, every six months) so as to remind supervisory officers of their roles in dealing with the problem of indebtedness of Police officers.

Response from the Administration

3.25 The **Commissioner of Police** has said that it is more appropriate to circulate only the relevant parts of the AIs to Sergeants and Station Sergeants in view of the complexity of the AIs.

3.26 The **Secretary for Security** has said that she agrees in principle with the audit recommendations, subject to the HKPF's comments from an operational point of view.

Audit examination of the HKPF's procedures for processing loan applications

3.27 In the 1993 audit, Audit observed that the HKPF's procedures for processing applications for salary advances under CSR 618 and applications for loans from the PWF were inadequate to address the following issues:

- the HKPF might grant a salary advance or a PWF loan to an officer without taking into account his repayment capability; and

Figure 3

HKPF's poster on the evils of gambling
(paragraph 3.5(e) refers)



Source: HKPF

Figure 4

HKPF's poster on the evils of gambling and overspending
(paragraph 3.5(e) refers)



Source: HKPF

Figure 5

HKPF's poster on healthy lifestyle
(paragraph 3.5(e) refers)



Source: HKPF

Figure 6

HKPF's poster on healthy lifestyle
(paragraph 3.5(e) refers)



Source: HKPF

- the HKPF might grant both a salary advance and a PWF loan to an officer for the same purpose. This was against the Government's policy.

Subsequently, the HKPF revised the procedures and strengthened the controls on approving salary advances and PWF loans.

3.28 Under the revised procedures, a staff member of the HKPF applying for a salary advance or a PWF loan is required to:

- complete a standard application form in which he states the purpose of the advance or the loan and declares his existing debts. In the case of applying for a PWF loan, he also has to make a statement that he has not applied and will not apply for a salary advance for the same purpose and occasion; and
- provide documentary evidence for supporting the information stated in the application form. This usually includes his salary statement, which will indicate whether he has existing salary advances or PWF loans (because repayments of these advances or loans are effected through deductions from his salary).

3.29 Applications for salary advances are addressed to the Director of Accounting Services through recommending officers (Superintendents for disciplined staff and Senior Executive Officers for civilian staff). In making his recommendation for approval of an application, the recommending officer has to:

- verify the information stated in the application form against the documentary evidence;
- satisfy himself that the applicant is capable of repaying the advance, taking into account the existing debts, if any, declared in the application; and
- check with the Regional Police Welfare Officer (who is authorised to approve applications for PWF loans) to ascertain whether a PWF loan has been made to the applicant for the same purpose.

3.30 Applications for PWF loans are routed through TSROs or formation commanders to Regional Police Welfare Officers for approval. In making his recommendation for approval of an application, the TSRO or formation commander has to verify the information stated in the application form and specify whether the applicant has applied for a salary advance for the same purpose. The Regional Welfare Officer will assess the applicant's capability to repay the loan and will also check against his records (which are provided by the Director of Accounting Services) to ascertain whether a salary advance has been made to the applicant for the same purpose.

3.31 Audit has selected, from the Treasury's payroll system, a total of 5,681 salary advances and PWF loans outstanding as at the end of March 1999 to examine the effectiveness of the revised procedures for preventing the granting of both a salary advance and a PWF loan for the same purpose. Audit's findings and recommendations are set out in paragraphs 3.32 to 3.34 below.

Audit observations on the HKPF's procedures for processing loan applications

3.32 **Audit observed that there were 20 cases where, in each case, the officer concerned had successfully applied for both a salary advance and a PWF loan at about the same time for the same purpose.** A list of these 20 cases is given at Appendix N. Among these 20 cases, there were 16 cases where the reasons given for salary advances were to cover the expenses for "moving to new accommodation" and the reasons given for PWF loans were to cover the expenses for "house decoration". These 16 cases were against the HKPF's guideline that an applicant who had applied for an advance of salary for house removal should not be offered a PWF loan for house decoration at the same time. In each of these 20 cases, the applicant made the statement in the PWF loan application form that "I have not applied and will not apply for an advance of salary for the same purpose and occasion under the CSRs", notwithstanding his declaration that "I understand that I may be liable to disciplinary action if I have given false information with this application".

3.33 **The 20 cases mentioned in paragraph 3.32 above indicate that the HKPF's procedures for processing loan applications have a control weakness which has rendered them ineffective in preventing the granting of both a salary advance and a PWF loan to the same officer for the same purpose.** This weakness appears to stem from the administrative arrangements whereby applications for salary advances and applications for PWF loans are usually processed by different groups of supervisory officers. While applications for salary advances are processed and recommended by the line management of the applicants (Superintendents or Senior Executive Officers), applications for PWF loans are processed by TSROs or formation commanders and approved by Police Welfare Officers. One possible way to address this control weakness is to require both applications for salary advances and applications for PWF loans to be routed through TSROs, who will then be in a better position to detect and prevent applications for both a salary advance and a PWF loan for the same purpose.

Audit recommendations on the HKPF's procedures for processing loan applications

3.34 **Audit has recommended that the Commissioner of Police should:**

- **strengthen the procedures for processing loan applications by requiring applications for salary advances and for PWF loans to be routed through the same group of officers (e.g. TSROs) in order to detect and prevent an officer from applying for both a salary advance and a PWF loan for the same purpose; and**

- follow up the 20 cases identified by Audit (where in each case, the officer concerned applied for both a salary advance and a PWF loan at about the same time for the same purpose) to ascertain the circumstances under which these cases were approved, and whether procedural improvements can be made.

Response from the Administration

3.35 The Commissioner of Police has said that:

- the HKPF will adopt the audit recommendation that applications for salary advances and applications for PWF loans should be routed through the same group of officers in order to detect and prevent cases of applying for both a salary advance and a PWF loan for the same purpose;
- the HKPF's guideline that an applicant who has applied for an advance of salary under house removal should not be offered a PWF loan for house decoration at the same time is an internal instruction from the Senior Police Welfare Officer (Welfare Services) to Police Welfare Officers and has not been generally made known to Police officers. This guideline will be reviewed and will be publicised if necessary (Note 8);
- under the Schedule of Loans and Grants approved by the PWF Management Committee, PWF loans for "house removal" and "house decoration" are classified as different items. Therefore, in the 16 cases where the reasons given for the salary advances were "moving to new accommodation" and the reasons given for the PWF loans were "house decoration", the officers concerned had made a true declaration that they had not applied and would not apply for an advance for the same purpose and occasion under the CSRs; and
- the HKPF allows applications for both a salary advance and a PWF loan to cover funeral expenses or educational expenses. This explains the approval for both a salary advance and a PWF loan for the same purpose and occasion in the remaining four cases. However, for similar cases in the future, the officers concerned will be reminded to make a declaration to this effect in the PWF loan application form.

Note 8: *This internal guideline/instruction is in line with the Government's policy that loans from different sources should not be extended to an officer for the same purpose and occasion. Had it been properly made known to Police officers, the relevant cases identified by Audit could have been detected and prevented.*

Appendix A
(paragraph 2.1 refers)

**Changes in number of OUDs
from January 1994 to June 1999**

Period	Number of OUDs with debts reduced to manageable level	Number of OUDs struck off from strength	Number of OUDs newly identified	Number of OUDs at end of period
	(a)	(b)	(c)	(d) = balance of preceding period - (a) - (b) + (c)
1/94 - 6/94	N.A.	N.A.	N.A.	180
7/94 - 12/94	N.A.	N.A.	N.A.	145
1/95 - 6/95	N.A.	N.A.	N.A.	132
7/95 - 12/95	N.A.	N.A.	N.A.	87
1/96 - 6/96	34	9	41	85
7/96 - 12/96	28	7	28	78
1/97 - 6/97	20	8	25	75
7/97 - 12/97	10	12	29	82
1/98 - 6/98	16	10	51	107
7/98 - 12/98	19	13	55	130
1/99 - 6/99	15	26	76	165

Source: HKPF's records

Note: N.A. indicates that data are not available.

Appendix B
(paragraph 2.2 refers)

**Amount of debts of OUDs
from January 1994 to June 1999**

Period	Number of OUDs	Total amount of debts	Average amount of debts of an OUD
		(\$)	(\$)
	(a)	(b)	(c) = $\frac{(b)}{(a)}$
1/94 – 6/94	180	12,550,177	69,723
7/94 – 12/94	145	11,109,267	76,616
1/95 – 6/95	132	10,437,716	79,074
7/95 – 12/95	87	9,918,411	114,005
1/96 – 6/96	85	13,986,614	164,548
7/96 – 12/96	78	17,003,719	217,996
1/97 – 6/97	75	15,931,546	212,421
7/97 – 12/97	82	18,384,842	224,205
1/98 – 6/98	107	28,328,458	264,752
7/98 – 12/98	130	43,223,528	332,489
1/99 – 6/99	165	60,899,813	369,090

Source: HKPF's records

Appendix C
(paragraph 2.7 refers)

**Number of serious pecuniary embarrassment cases
reported under CSR 456 from January 1994 to June 1999**

Department	1994	1995	1996	1997	1998	1999 (January – June)	Total
Correctional Services	—	2	8	8	11	5	34
HKPF	2	3	1	2	—	1	9
Immigration	—	—	1	—	1	3	5
Other departments	—	3	1	4	6	4	18
Total	2	8	11	14	18	13	66

Source: CSB's records

Appendix D
(paragraph 2.7 refers)

**Number of bankruptcy cases reported
under CSR 458 from January 1994 to June 1999**

Department	1994	1995	1996	1997	1998	1999 (January – June)	Total
Urban Services	2	—	—	2	27	41	72
Correctional Services	—	1	3	—	9	23	36
HKPF	2	1	1	3	6	7	20
Housing	—	—	1	—	5	14	20
Regional Services	1	—	—	—	1	11	13
Post Office	—	—	—	—	2	7	9
Electrical and Mechanical Services	—	—	—	1	1	4	6
Health	—	—	—	—	2	4	6
Water Supplies	—	—	—	—	3	3	6
Fire Services	—	—	1	—	—	4	5
Other departments	1	1	1	4	22	29	58
Total	6	3	7	10	78	147	251

Source: CSB's records

Appendix E
(paragraph 2.12 refers)

**Number of salary deduction cases
under garnishee orders from 1994-95 to 1998-99**

Department	1994-95	1995-96	1996-97	1997-98	1998-99	Total	Total amount involved
	(Number)	(Number)	(Number)	(Number)	(Number)	(Number)	(\$ million)
HKPF	1,254	920	821	692	651	4,338	51.3
Correctional Services	386	380	379	396	385	1,926	22.2
Urban Services	409	359	285	329	319	1,701	8.9
Housing	238	240	205	220	222	1,125	8.6
Regional Services	178	156	166	187	181	868	3.8
Fire Services	91	107	112	130	162	602	4.6
Water Supplies	129	109	96	103	89	526	4.5
Other departments	1,213	1,229	1,144	1,173	1,226	5,985	64.7
Total	3,898	3,500	3,208	3,230	3,235	17,071	168.6

Source: Treasury's records

Appendix F
(paragraph 2.13 refers)

**Percentage of salary deduction cases to staff strength
from 1994-95 to 1998-99**

Department	1994-95	1995-96	1996-97	1997-98	1998-99
Correctional Services	5.5%	5.3%	5.3%	5.4%	5.5%
Urban Services	2.7%	2.4%	1.8%	2.1%	2.0%
HKPF	3.8%	2.8%	2.4%	2.1%	1.9%
Fire Services	1.1%	1.3%	1.4%	1.6%	1.9%
Regional Services	1.8%	1.6%	1.7%	1.8%	1.7%
Housing	1.8%	1.8%	1.5%	1.6%	1.6%
Water Supplies	2.4%	1.9%	1.6%	1.7%	1.5%

Source: Audit's calculations based on the Treasury's records

Appendix G
(paragraph 2.14 refers)

**Number of salary advance cases under CSR 618
from 1994-95 to 1998-99**

Department	1994-95	1995-96	1996-97	1997-98	1998-99	Total
HKPF	3,393	2,971	3,202	4,527	3,377	17,470
Fire Services	802	1,471	1,167	1,550	790	5,780
Housing	1,177	1,185	1,039	950	897	5,248
Urban Services	711	851	850	886	889	4,187
Correctional Services	871	861	768	855	719	4,074
Customs and Excise	463	555	672	693	529	2,912
Immigration	547	581	535	547	504	2,714
Post Office	465	531	558	560	460	2,574
Regional Services	483	420	509	596	565	2,573
Other departments	5,254	6,110	6,125	5,756	5,378	28,623
Total	14,166	15,536	15,425	16,920	14,108	76,155

Source: Treasury's records

Appendix H
(paragraph 2.15 refers)

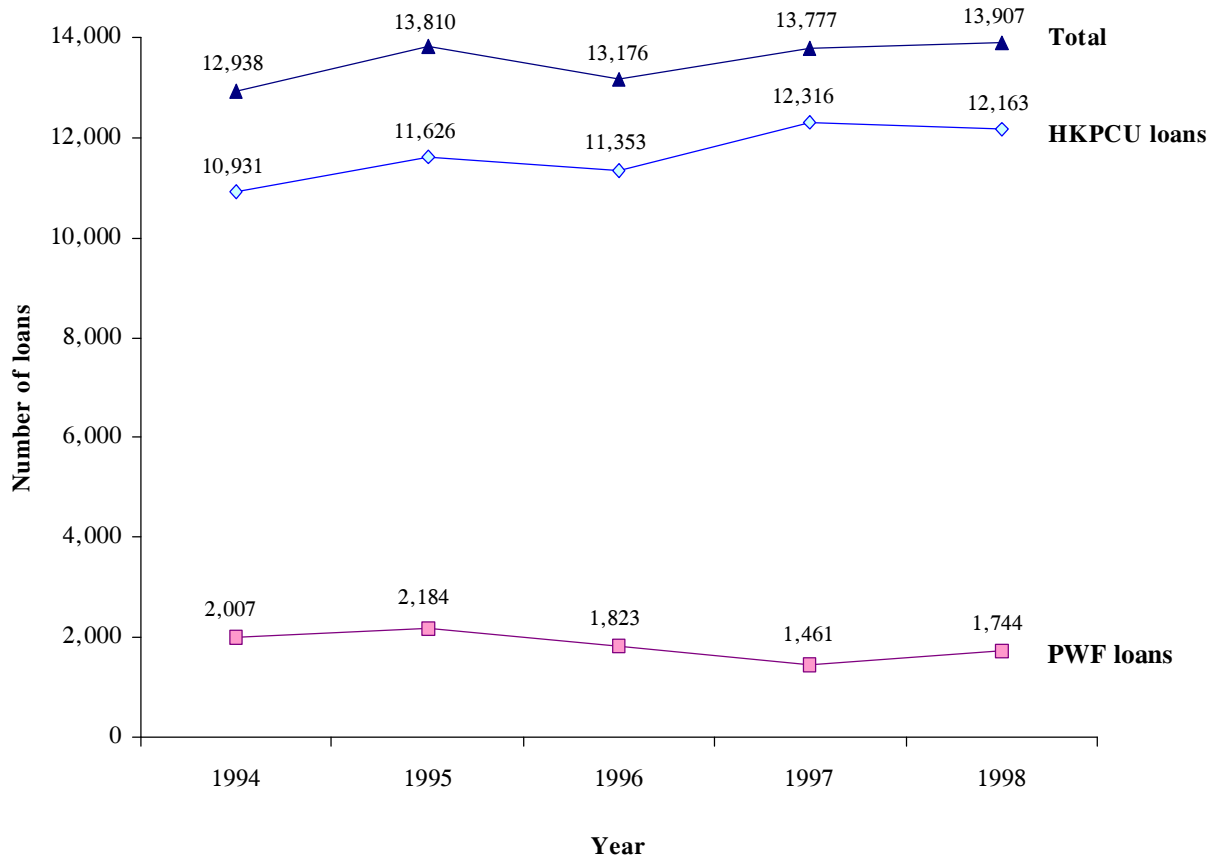
**Percentage of salary advance cases to staff strength
from 1994-95 to 1998-99**

Department	1994-95	1995-96	1996-97	1997-98	1998-99
Customs and Excise	11.9%	13.9%	16.2%	16.3%	11.5%
Correctional Services	12.3%	12.0%	10.7%	11.7%	10.2%
HKPF	10.2%	8.9%	9.5%	13.5%	10.0%
Fire Services	10.0%	18.5%	14.5%	18.8%	9.2%
Immigration	9.8%	10.3%	9.7%	10.3%	9.2%
Post Office	8.8%	9.8%	10.0%	9.8%	7.8%
Housing	9.0%	9.0%	7.6%	6.8%	6.4%
Urban Services	4.8%	5.6%	5.5%	5.7%	5.7%
Regional Services	4.9%	4.3%	5.1%	5.7%	5.3%

Source: Audit's calculation based on the Treasury's records

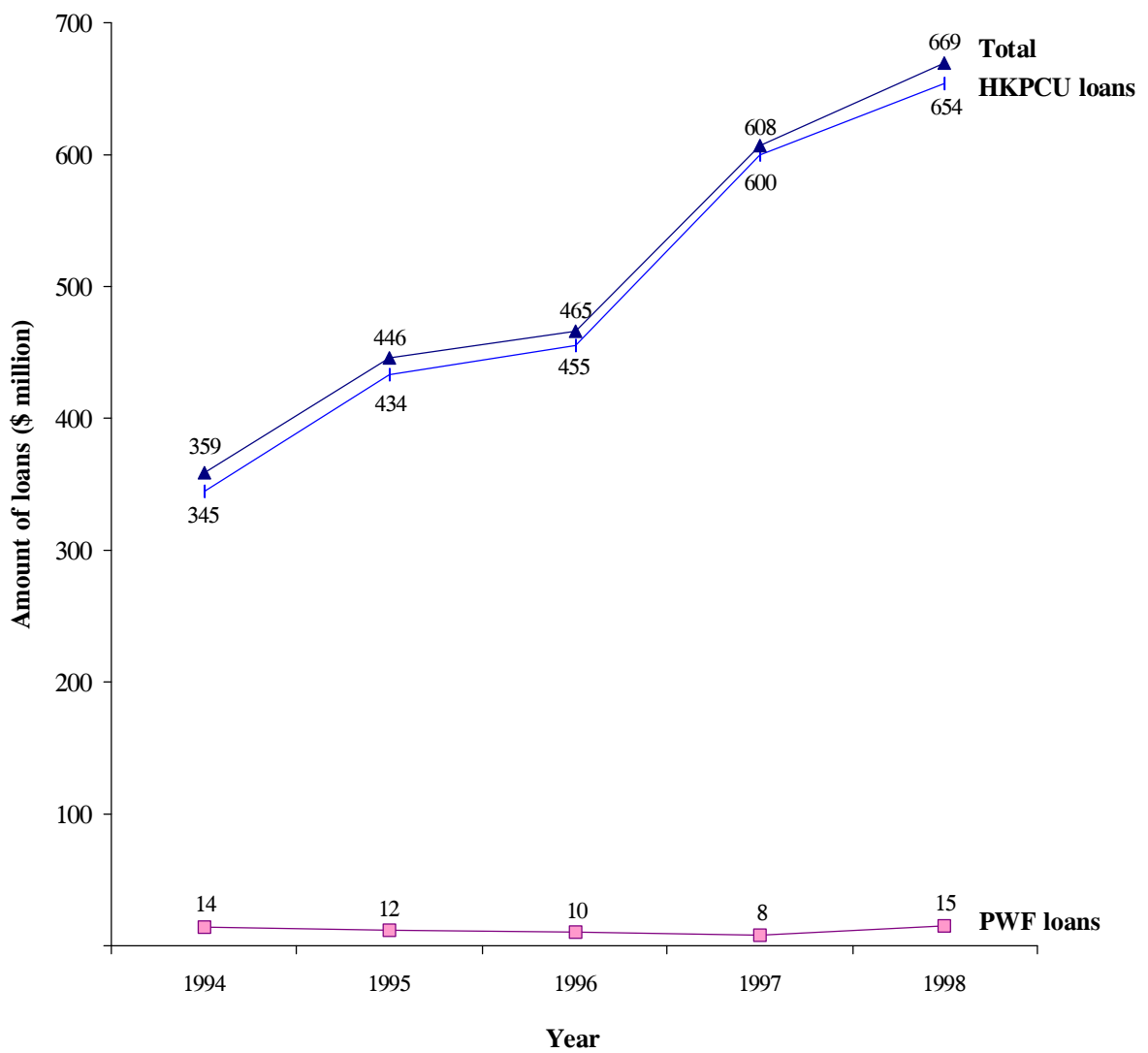
Appendix I
(paragraph 2.16 refers)

**Number of loans from PWF and HKPCU
granted to civil servants working in the HKPF from 1994 to 1998**



Source: HKPF's records

**Total amount of loans from PWF and HKPCU
granted to civil servants working in the HKPF from 1994 to 1998**



Source: HKPF's records

Appendix K
(paragraph 3.3 refers)

**Number of Police officers adjudicated of
having committed debt-related disciplinary offences from 1994 to 1998**

Year	Borrowing from loansharks	Borrowing from unauthorised sources (friends or colleagues)	Impairment of efficiency arising from imprudent financial management	Total
1994	2	4	2	8
1995	3	5	3	11
1996	1	2	2	5
1997	3	2	3	8
1998	12	6	5	23
Total	21	19	15	55

Source: HKPF's records

Appendix L
(paragraph 3.3 refers)

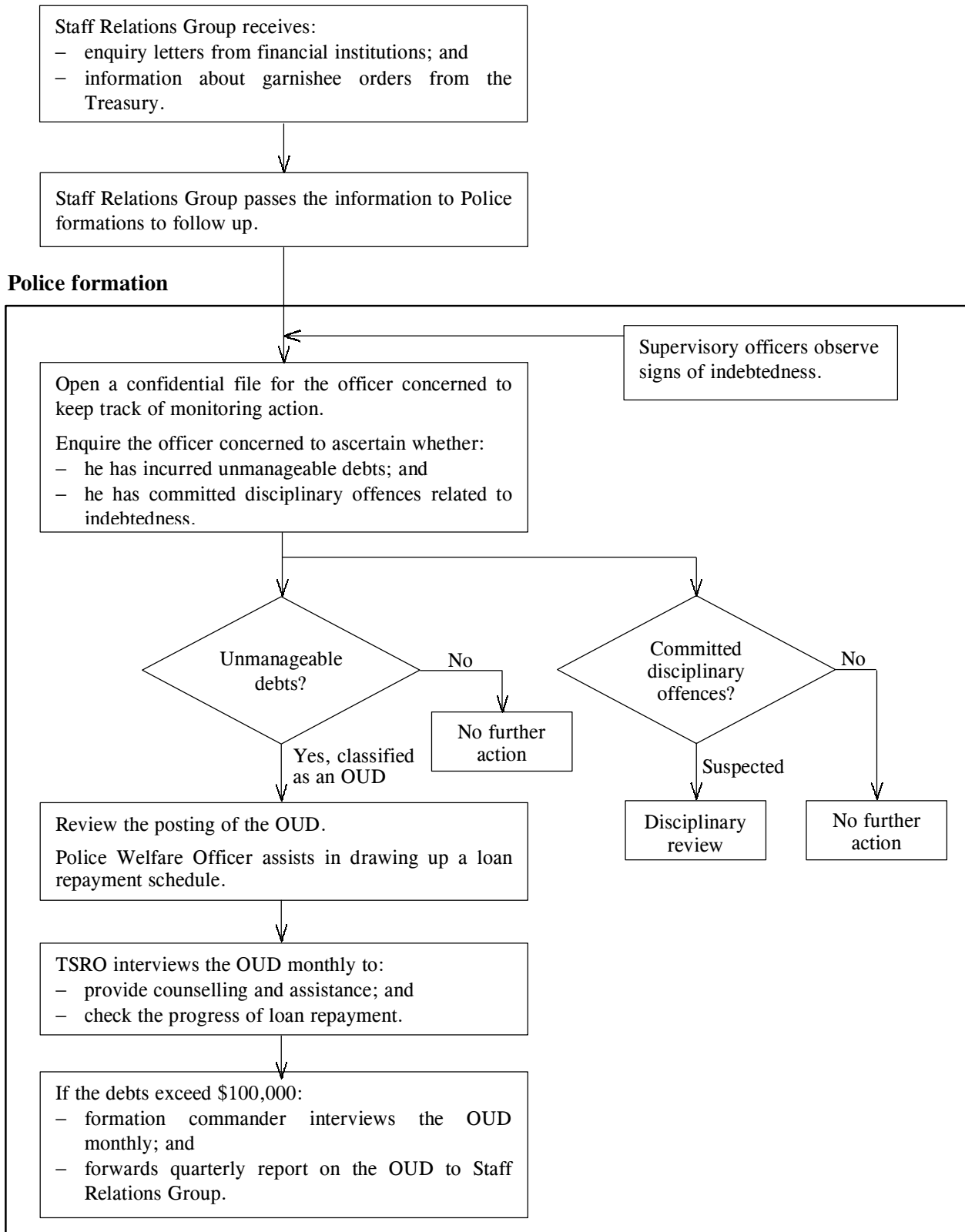
**Punishment given to Police officers adjudicated of
having committed debt-related disciplinary offences from 1994 to 1998**

Year	Reprimand or severe reprimand	Compulsory retirement	Order to resign	Dismissal	Total
1994	3	1	—	4	8
1995	4	1	2	4	11
1996	1	—	—	4	5
1997	2	2	1	3	8
1998	5	9	2	7	23
Total	15 (27%)	13 (24%)	5 (9%)	22 (40%)	55 (100%)

Source: HKPF's records

Note: The figures include cases in which punishment was suspended.

Steps for identifying and handling OUDs



**Applications for both an advance of salary
under CSR 618 and a loan from PWF for the same purpose**

Police region	Salary advances			PWF loans		
	Date of application	Amount	Purpose	Date of application	Amount	Purpose
		(\$)			(\$)	
Marine	3.7.1998	25,340	New accommodation	3.7.1998	13,000	House decoration
	3.6.1998	25,000	New accommodation	3.6.1998	13,000	House decoration
	8.10.1998	25,000	New accommodation	18.10.1998	13,000	House decoration
	27.5.1998	25,000	New accommodation	27.5.1998	13,000	House decoration
	8.5.1998	25,000	New accommodation	18.5.1998	13,000	House decoration
	12.12.1998	25,000	New accommodation	12.12.1998	13,000	House decoration
	9.12.1998	26,800	New accommodation	30.12.1998	13,000	House decoration
	14.7.1998	25,000	New accommodation	1.9.1998	13,000	House decoration
Hong Kong Island	14.7.1998	25,340	New accommodation	21.7.1998	13,000	House decoration
	8.6.1998	25,000	New accommodation	8.6.1998	10,000	House decoration
	29.6.1998	25,340	New accommodation	27.6.1998	13,000	House decoration
	6.8.1998	26,800	Overseas education	5.8.1998	8,000	Education

Police region	Salary advances			PWF loans		
	Date of application	Amount	Purpose	Date of application	Amount	Purpose
		(\$)			(\$)	
Kowloon East	16.11.1998	25,000	New accommodation	16.11.1998	10,000	House decoration
	10.1.1999	26,800	Funeral	11.1.1999	15,000	Funeral
	9.11.1998	26,800	Funeral	9.11.1998	15,000	Funeral
	1.12.1998	25,000	New accommodation	24.11.1998	13,000	House decoration
Kowloon West	1.9.1998	26,800	New accommodation	19.8.1998	13,000	House decoration
	22.12.1998	25,000	New accommodation	22.12.1998	13,000	House decoration
New Territories North	28.7.1998	24,984	New accommodation	28.7.1998	9,700	House decoration
New Territories South	16.12.1998	26,800	Funeral	31.12.1998	15,000	Funeral

Source: HKPF's records and the Treasury's payroll system

Appendix O

Acronyms and abbreviations

AIs	Administrative Instructions
CSB	Civil Service Bureau
CSD	Correctional Services Department
CSRs	Civil Service Regulations
HKPCU	Hong Kong Police Credit Union
HKPF	Hong Kong Police Force
ICAC	Independent Commission Against Corruption
ODUs	Officers with unmanageable debts
PAC	Public Accounts Committee
PGO	Police General Order
PUF	Police Welfare Fund
TSROs	Training and Staff Relations Officers
USD	Urban Services Department