WHY DO CORRUPT BEHAVIOURS FEATURE SO PROMINENTLY IN PUBLIC PROCUREMENT?

Richard Doyle*

ABSTRACT. In Australia the New South Wales state government’s anti-corruption commission has identified procurement as a major risk for corruption. It found in its public inquiries and investigations that procurement was the most common source of corruption.

The aim of the working paper is to look at this major problem for governments and suppliers. It will also examine what can be done to address this major problem, particularly in the area of building procurement competence.

A literature review was conducted of Australian and overseas publications and reports, with a focus on corruption and public procurement.

A number of case studies will also be highlighted in the paper of procurement corruption and actions to address this systemic problem.

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INTRODUCTION

Transparency International highlights in its Corruption Perception Index for 2011 that of the 183 countries listed in its index, none are immune from public sector corruption. The Corruption Perceptions Index ranks countries according to their perceived levels of corruption, with a score between nought and ten. The surveys and assessments used to compile the index include questions relating to government procurement. The country with the least perception of corruption was New Zealand (9.5), with Somalia the highest (1.0).

Australia’s index of 8.8 places it in equal eighth position of the top ten countries, with the lowest levels of perceived corruption. However, corruption does feature prominently in our media on a daily basis in Australia. In fact, a scan of the local media in the first quarter of 2012 highlights a number of procurement corruption cases in both the private and public sectors.

One of Australia’s largest construction companies, Leighton Holdings is under investigation by the Australian Federal Police for corrupt procurement practices. ¹ Leighton is being investigated for the payment of bribes in relation to the awarding of contracts in Iraq, for oil and gas construction services.

The media in Australia continues to report on the Reserve Bank of Australia and two of its subsidiaries, Securency and Note Printing Australia. Both companies were involved in the facilitation of bribes to government officials in Vietnam, Malaysia, Indonesia and Nepal to secure plastic note printing contracts.

Tenix, owned by Australia’s largest defence contractor, BAE Systems Australia is also under investigation by the Australian Federal Police for allegedly paying bribes to government officials in Indonesia and the Philippines in order to secure defence contracts for the supply of patrol boats. ²

In New South Wales there numerous stories in the state and local media of examples of procurement related corruption involving government agencies, government business enterprises and universities, including the University of New England.

Procurement is vulnerable to corruption and the aim of the working paper is to conduct a literature search on this systemic problem, particularly in relation the people factor and the improvement of the competence of those involved in procurement.
What is corruption?

Corruption is difficult to define and measure. Transparency International defines corruption as “the abuse of entrusted power for private gain. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.”  Private gain is interpreted widely to include individual acts and economic crimes.

Corruption in government procurement can include upfront bribes by people to officials (decision makers) in order to obtain a decision in their favour. Facilitation payments are generally smaller amounts paid to officials to accelerate decisions. Both of these forms of corruption are illegal behaviours in most countries. Corruption can occur along the entire procurement cycle from needs assessment through to finalisation of a contract and disposal of assets.

Corruption can be caused by bad individuals, bad systems or a combination of both. In terms of bad individuals the focus should be on behaviour, character, ethics, integrity, selection and training. Bad individuals need to caught and punished, to deter others. With systems, it is a matter of rules and procedures to reduce the opportunity for corruption and to encourage good behaviour. Corruption often takes place in secret, between consenting individuals and often involves complex technical transactions.

Australian and state government’s approach to anti-corruption

At the international level, Australia is a party to both the United Nations Convention against Corruption (UNCAC) and the Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Australia is also a key member of the G20 Anti-Corruption Working Group and participation in the development of the G20 Anti-
Corruption Action Plan. The government is also an active member of the Asia-Pacific Economic Cooperation Anti-Corruption Working Group.

In September 2011 the Australian Government announced the intention to develop and implement our first National Anti-Corruption Plan. The aim of the plan is to outline the existing multi-jurisdictional approach to anti-corruption. In Australia there are a number of different agencies with specific responsibilities for tackling corruption in the three (federal, state and local) levels of government.

Most state governments in Australia have established independent anti-corruption bodies. However, no such body exists at the federal level in Australia.

**Independent Commission Against Corruption**

In order to combat corruption, the model of an independent commission against corruption was first established in Hong Kong, with a focus on investigation, prosecution, prevention and training. This led to the establishment of similar commissions focused on anti-corruption, including Australia.

The Independent Commission Against Corruption (ICAC) was established by the New South Wales (NSW) Government in 1989 in response to concern by the people of NSW to the lack of integrity within the public administration. The ICAC was the first such commission of its kind in Australia.

ICAC’s functions are set out in the *Independent Commission Against Corruption Act 1988*. Its main functions are to:

- Investigate and expose corruption in the NSW public sector.
- Prevent corruption through advice and assistance.
- Educate the NSW community and the public sector about corruption and its effects.

The jurisdiction of ICAC extends to all public sector agencies, except the NSW Police Force. It also includes local councils in NSW, members of parliament, ministers, the judiciary and the governor of NSW.

The University of New England and its controlled entity UNE Partnerships is also within the jurisdiction of the ICAC, given the
University was established through an act of the NSW parliament and is also part funded by the federal government.

ICAC assesses all matters it receives to decide what actions to take. The ICAC has extensive powers to investigate allegations of corrupt conduct. The purpose of ICAC investigations is to determine what is or has occurred and whether the conduct of a person amounts to corrupt conduct. The investigations may hold compulsory examinations or public inquiries. All investigations which involve a public inquiry must be reported to the NSW parliament.

**PROCUREMENT AND CORRUPTION**

Between 1989 and 2010 the ICAC conducted 87 investigations, with 26 (30%) of the investigation findings involving corrupt conduct, related to government procurement. Each year approximately 12% of the complaints received at the ICAC include allegations of procurement corruption. v

As a result of this finding, the ICAC embarked on an ambitious research project to examine the risk of corruption in government procurement. The research project was detailed in a consultation paper in 2010, culminating in a series of recommendations and advice on how to better manage corruption risks in government procurement.

The ICAC research project identified 12 problem areas in procurement that need to be addressed in a systematic way in order to minimise opportunities for corruption.

**Problem areas in government procurement**

Preliminary research vi identified 12 problem areas in government procurement:

1. Expertise of procurement staff or rather the lack of. Some public sector staff involved in procurement do not have subject matter expertise, appropriate experience nor relevant education and training. Inadequate education and training is a major contributor to a lack of expertise amongst procurement professionals. This also extends to contractors hired by public sector agencies to assist in procurement.
2. Relationships between public sector personnel and suppliers are at the core of corruption within government procurement. Inappropriate relationships often lead to conflicts of interest that are not declared or are poorly managed. Often little or no training for conflicts of interest have been provided to both government procurement officials and contractors.

3. Management of staff involved in procurement is often poor, with ignorance of policy and procedures widespread in agencies. Poor management of staff leads to inadequate supervision and little checks on those involved in government procurement. The result of this poor management of staff is corrupt behaviours and the creation of opportunities for corruption.

4. Public / private sector differences particularly the approach taken by both to procurement, can cause problems. In the public sector, cost and quality is a feature of procurement, with accountability and transparency underpinning it. Cost and quality alone is a feature of private sector procurement. Often private sector procurement personnel have difficulty in moving to the public sector to undertake procurement roles in government.

5. Information about procurement policy is often lacking and difficult to follow for government procurement personnel. Lack of access to procurement information has an impact on procurement and can facilitate corruption in the public sector. The lack of training on procurement policy, fraud and corruption for both public sector agencies and suppliers is a major concern.

6. Tight timeframes creates the risk of corruption in procurement. The imposition of urgency, emergencies and quick decisions can lead to procurement policy non-compliance and the creation for opportunities for corruption.

7. Direct negotiations between government procurement officials and suppliers are a major risk for corruption. Face-to-face meetings and discussions create opportunities for the provision of gifts and benefits and favouritism.

8. Use of subcontractors by contractors to the public sector is a concern, particularly when an agency is unaware of their involvement in specific contracts. Even though it is a requirement for a contractor to provide information on the involvement of subcontractors, this is often not the case, posing a procurement risk for corruption.
9. Lack of genuine markets and the impact on the prevailing market price for a good or service, leaves public sector agencies vulnerable to the risk of corruption. Collusion amongst suppliers in the provision of quotations, along with the inappropriate supply of pricing information to potential contractors poses significant procurement risks.

10. Outsourcing creates opportunities for corruption, in particular for what the agency needs and what gets delivered by a contractor. It is also an issue when a contractor is involved in corrupt behaviour.

11. Bypassing the central procurement agency by agencies undertaking procurement opens the door to potential corruption and avoidance of policy and procedures.

12. Discretion in procurement provides opportunities for officials to deviate from policies and procedures. This can potentially lead to corrupt behaviours.

**Corrupt behaviours**

Research undertaken by ICAC of the 12 problem areas, if not managed, can lead to a range of behaviours including:

- Collusion (62% of the 26 investigations) between public officers and the private sector staff and organisations to defraud the government agency.
- Improper gifts and benefits (62% of the 26 investigations), including bribes from contractors to public officials.
- Improper use of information (42% of the 26 investigations) including the release of pricing and specification information by public officials to contractors.
- Fraud (42% of the 26 investigations) involving false and fake invoices.
- Bias and favouritism in supplier selection (16% of the 26 investigations) by public officials.
- Poor contract management and inadequate performance monitoring by public officials.
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Table 1: Potential behaviours arising from problems in procurement

<table>
<thead>
<tr>
<th>Procurement problem Behaviour</th>
<th>Collusion</th>
<th>Bribery or gifts</th>
<th>Misuse of information</th>
<th>Fraud</th>
<th>Bias and favouritism</th>
<th>Poor contract management</th>
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<tbody>
<tr>
<td>Expertise of staff</td>
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<td>✓</td>
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<td>Relationship s</td>
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<td>Management of staff</td>
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<td>Public/private sector differences</td>
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<td>Information about procurement policy</td>
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<td>Tight timeframes</td>
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<td>Direct negotiations</td>
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<td>Use of subcontractors</td>
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<td>Lack of genuine markets</td>
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<td>Outsourcing</td>
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<td>Bypassing central procurement agency</td>
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<td>Discretion</td>
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The ICAC identified a number of aspects of procurement that were vulnerable to corruption, including the:
• Stages of the procurement process – contract management was ranked the most vulnerable to corruption, followed by assessment of tender bids.
• Types of procurement process – direct negotiations by procuring agencies were the most vulnerable to corruption, followed by quotations, panel contracts and tenders. Suppliers rated panel contracts as the most vulnerable to corruption.
• Value of procurements – price is a factor in vulnerability to corruption. It is not the high and low value contracts, but rather procurements around the $AUD 1-2 million that are vulnerable. These procurements are often managed by personnel who are inexperienced and often not supervised.
• Risks created by staff – procurement undertaken by subject matter experts was considered vulnerable, given there is often a focus on product rather than process. The use of contractors in the procurement process opens up the possibility for corruption.
• Decentralised procurement – is open to corruption, given conflicts of interests are more common, reported less and not managed properly. A high level of discretion in decentralised procurement provides an opportunity for public officials to bypass procedures.
• Local government – is particularly vulnerable to corruption. Relationships between council officials and local communities can lead to conflicts of interest. Often local communities have fewer suppliers and the procurement value is lower, with little scrutiny.

**Suppliers’ perceptions of corruption**

During July 2010, the ICAC conducted research into the perceptions of corruption in procurement at both the state and local level of government in NSW. Suppliers to government were invited to answer an online survey on the prevalence of corruption in procurement, the types of corruption behaviour and the vulnerability to corruption of different procurement methods. The research report was released by the ICAC in mid-July 2011."
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The results of the survey indicated that suppliers perceive corruption to be a serious issue in NSW government procurement. Of those who responded to the survey 42% perceive corruption in procurement to be a moderate to major problem. Suppliers’ lack of confidence in NSW government procurement may cause them not to bid on contracts or price into their bids the costs of corruption. This will have an impact for the government on value for money in procurement. Approximately one-third of suppliers said they did not bid for government contracts because of concerns for corruption.

Many of the suppliers to the NSW government believe specific corruption prone behaviours are prevalent in procurement. The giving and accepting of benefits and gifts is conducive to corruption, especially the sense of obligation to give something in return. These gifts and benefits represent a cost and suppliers often build this cost into their prices. The offering of gifts and benefits worth $AUD20 or more by suppliers to procurement officials was perceived as frequent by close to half of the respondents to the survey. In relation to procurement officials, 36% accepted the offer of gifts and benefits.

Corruption opportunities occur with the mishandling of procurement information by public officials. The release or withholding of information may influence the decision by suppliers to bid for contracts or not. Public officials providing unequal information to tenders was perceived as frequent by 39% of suppliers. A quarter of suppliers indicated their confidential tender information was leaked to other tenders, prior to the close of tenders. Favouritism also provides corruption opportunities in procurement and may discourage some bidders from submitting a proposal. The perception is that over half of suppliers feel that procurement officials favour certain suppliers during the tender process.

Corruption risks and procurement controls vary across procurement methods and the stages of the procurement process. Suppliers ranked the procurement methods of direct negotiations and non-tendered quotations as particularly vulnerable to corruption. Suppliers perceive a wide range of procurement methods vulnerable to corruption. Suppliers ranked the six stages of procurement from needs analysis through to contract evaluation for corruption vulnerability.
Needs analysis and contract management were ranked the highest by suppliers in terms of corruption risk. Overall both suppliers and the ICAC perceive corruption risk across all six stages of the procurement process.

**Independent Commission Against Corruption recommendations**

In mid-July 2011 the ICAC made a series of recommendations to the NSW Government for procurement reform following the research. The Commission found that in NSW, corruption is widespread and systemic in both the state and local governments.

The research reveals that the risks of corruption in procurement stem from a combination of weaknesses in system design and implementation:

- **Weaknesses in procurement system design**
  - Absence of a central, leadership role
  - Structural confusion
  - Regulatory complexity

- **Weaknesses in implementation of procurement policy**
  - Poor information, advice and support to agencies
  - Low levels of procurement competence across the state
  - Weak oversight of policy compliance

To address the risks the ICAC made seven recommendations to establish procurement leadership, a structure, a simplified regulatory environment and technical assistance to government agencies. Of the seven recommendations, one focused on building procurement competence.

**Building procurement competence**

“Recommendation 6: The ICAC recommends that the NSW Government introduces a sector-wide procurement education and training assurance framework that provides for:
• Mandatory minimum standards linked to levels of procurement responsibility.
• Auditing of agency procurement capabilities and associated training initiatives.
• System for mandatory certification of procurement policy and process awareness and compliance by agency staff.”

The competence of those involved in government procurement will have a major impact on controlling this major activity. The adoption of risky procurement procedures and also corrupt behaviours will increase by staff with low levels of management competence overseeing those involved. Government agencies face a major challenge in achieving and maintaining procurement competence amongst their staff. There is a difficulty in recruiting procurement subject matter experts and also finding staff to undertake procurement activities in agencies. Part of this problem is the complexity of procurement in NSW, which was addressed in the other six recommendations made by the ICAC.

Lack of procurement competence is partly due to a lack of training, the challenge to achieve competency and maintain it in a complex policy and procedural environment.

Procurement training for NSW public sector employees is provided by the Department of Finance and Services, through its Procurement Certification Training program. "The Procurement Certification Training (PCT) is designed to meet the needs of those involved in simple procurement, through to strategic procurement.

The PCT comprises four levels:

1. Understanding NSW Public Sector Procurement- one day foundation course covering the policy and legislative framework, the procurement process, conducting basic procurement and options to add value to the procurement process.
2. Effective Procurement Capabilities – builds on level one over three days covering planning for procurement, conducting procurement, managing the contract,
completing contractual arrangements, ethical procurement and NSW procurement.

3. Procurement and Contract Management – covers three modules over nine days on planning procurement, conducting procurement and managing contracts.

4. Strategic Procurement and Contract Management – covers three modules over nine days on strategic procurement planning, coordinating strategic procurement and strategic contract management.

NSW Procurement (a whole of government unit) and the Institute of Public Administration Australia (professional body) have formed an alliance, to deliver the PCT to public sector employees. The ICAC has also had input into the development of the training, ensuring public officials involved in procurement and contract management understand their accountabilities.

Participants completing the level two successfully attain an accredited unit of competency. Those that successfully complete levels three and four attain the following nationally recognised qualifications:

- Diploma of Government (Procurement and Contracting) – level three.
- Advanced Diploma of Government (Procurement and Contracting) – level four.

Participants who successfully complete the level four PCT are eligible to apply for certification with the Chartered Institute of Purchasing Supply Australasia and also the Australian Association of Procurement and Contract Management.

According to the ICAC only a small proportion of local and state government staff involved in procurement have undertaken or completed the training. The training is also not open to the private sector and there appears to be no NSW procurement training, for contractors to gain an understanding of selling to government.

ICAC also points out that “There is no sector-wide system in place that aims to give assurance that the level of procurement competence of agencies as a whole, and the
level for individual procurement practitioners, is appropriate to the scale of procurement activities being undertaken.”

The NSW Government acknowledges that there is a lack of procurement competence across the public sector and that this issue needs to be addressed as a matter of priority.

In NSW, procurement training for local government officials is not provided by the Institute of Public Administration Australia instead is delivered by its own training organisation.

**Independent Commission Against Corruption training**

The ICAC provides anti-corruption training to public sector agencies and individuals in the state. The half to one day workshops cover corruption prevention for managers and also corruption prevention in procurement.

The corruption prevention for managers’ workshop is intended for state and local government managers and internal auditors. The aim of the training is to raise awareness of corruption, corruption risks and role of managers in preventing, detecting and responding to these problems.

The targeted corruption prevention in procurement training has two streams – managers and officers. The managers’ workshop aims to equip people with the skills to identify corruption in procurement and develop a risk management approach to the prevention of his problem. The training is designed for managers with line responsibility for procurement. The procurement managers’ workshop covers the role of management in corruption prevention in procurement and the identification of risks and controls.

The corruption prevention for procurement officers’ workshop aims to help procurement staff to understand probity requirements and procurement risks. The workshop is designed for those new to the public sector and those involved in managing contracts.

Each of the workshops covers the following content:

- Recognising corruption in procurement
  - Introduction to corruption in procurement
  - Probity in procurement
What is corruption?
- Corruption risks in procurement
  - Why is procurement risky
  - Private and public sector interface
  - Common corruption risks in procurement
  - Factors associated with corrupt conduct
  - Stage-specific corruption risks
- Understanding corruption
  - How and why corruption occurs
- Identifying and managing corruption risks in procurement
  - Particular risks in contract management, direct negotiations and panel contracts
  - Conflicts of interest
  - Attempting to influence public officials
- Responsibilities in corruption prevention
  - Individual, manager and organisation

The ICAC Annual Report for 2010 – 2011 indicates that the two courses for procurement officers and managers were its most popular with agencies. Both courses were developed during this period and 45% of all the workshops delivered by ICAC were focused on corruption prevention in procurement. In the financial year 2010 – 2011 the Commission delivered 40 corruption prevention procurement workshops, out of the 89 in total for the 12 months. These courses were offered to public sector agencies at no cost.

The corruption prevention in procurement training, whilst popular with agencies in NSW, does not appear to meet the needs of both the public and private sector. Given there is a systemic problem with corruption and procurement the training should be delivered to a greater number of procurement practitioners and agencies. Consideration should be given to making the training mandatory for all personnel involved in procurement at the state and local levels in NSW. The current training is not open to contractors and suppliers in NSW and given that corruption in procurement is a problem for both the demand and supply side, this needs to be addressed.

The ICAC should consider outsourcing its corruption prevention in procurement training to either or both of the public and
private sector training organisations. The Commission should also consider licencing its course to training organisations, for delivery to suppliers and contractors in NSW. Both measures will help to build procurement competence and assist in preventing corruption in procurement.

**Other anti-corruption education and training**

The ICAC has collaborated with the Crawford School of Economics and Government at the Australian National University to design, develop and deliver an Executive Program on Corruption and Anti-Corruption.

The course is aimed at officials in anti-corruption agencies, managers of public sector agencies which may be a risk of corruption, and students of public policy against corruption. The course appears to be the only one of its kind in Australia.

The course is delivered intensively face-to-face over one week in Canberra to several groups of participants, including ICAC nominated public servants, international officials and ANU and Australian and New Zealand School of Government masters students in public policy.

At the end of the course participants will be familiar with theories about how corruption is caused, and be able to recognise the theories that lie behind anti-corruption practices. They will also be able to identify corruption risks in the workplace and practical ways to reduce the risks of corruption.

**CASE STUDIES**

The ICAC has a large number of investigation reports available in the public domain and included is a case study on RailCorp, a government business enterprise regularly in the news for all the wrong reasons. Also included is an emerging case study involving corruption allegations at the University of New England.

**RailCorp**

Rail Corporation New South Wales (RailCorp) is a government owned entity of 15,000 employees providing metropolitan and country passenger rail services in NSW. RailCorp also builds,
maintains and operates the state’s rail assets. It is a significant procurer of goods and services, spending around $AUD 2 billion each year.

RailCorp has been the subject of numerous ICAC inquiries, the most recent being in 2009, much of it associated with procurement. This inquiry followed the most serious investigation in the organisation’s history, in which ICAC made 96 findings of corrupt conduct, recommended more than 663 criminal charges against 33 RailCorp staff and contractors. The Commission also recommended changes to RailCorp’s structure, practices and procedures, aimed at reducing the opportunities for corrupt behaviour.

The ICAC 2009 investigation “identified inadequately trained staff as the major risk area that made it possible for the corrupt conduct to occur and the Commission makes the following five recommendations to improve RailCorp procurement systems and procedures in order to prevent future opportunities for corruption.” xviii One of the recommendations to RailCorp included revising its procurement training for staff and contractors to explicitly address the risks for corruption and non-compliance in direct negotiations. Also, the Commission recommended that staff and contractors receive training in RailCorp’s electronic procurement system (ARIBA) and its procedures, prior to using the system. The implementation of an electronic procurement system has delivered a single purchasing point and eliminated non-approved suppliers to RailCorp.

Following these investigations, RailCorp embarked on significant reform of its procurement, aiming to not only stamp out corruption, but also to develop a world class procurement system. This involved standardising processes for sourcing and procurement across the organisation, robust contract and supplier management frameworks and the development of new policies and procedures. The new approach included standard reporting and control mechanisms within a compliance strategy and risk management framework.
The procurement reform at RailCorp continues its improvement focus and the good news in 2012 is that RailCorp has not been investigated by the ICAC since 2009.

**University of New England**

In 2011 the ICAC raided the office of the University’s Facilities Management Services unit, seizing computers and documents. Following a review of the documentation and an investigation, the Commission held a public inquiry over five days, commencing 23 January 2012, investigating allegations of corrupt conduct by the campus services manager employed by the University. \(^{xx}\)

The Facilities Management Services is responsible for the maintenance and operation of the University’s buildings and facilities and the services required for the operation of the campus. The campus services manager was involved in tender processes for significant services contracts and obtaining requests for quotations for other services.

One particular contract involved cleaning services for the University, which the manager was responsible for. The inquiry examined whether the manager breached the University’s code of conduct and other policies and procedures, engaging in corrupt conduct by accepting hospitality. The inquiry also investigated allegations of false invoices, solicitation of employment and obtaining financial benefit from the cleaning contractor. There were concerns with other contracts managed by the campus services manager, including University security, mail services and maintenance.

The ICAC raised serious issues of corruption prevention at the University. The issues included inadequate training and awareness of the University’s code of conduct and gifts and benefits policy, lack of formal procurement policies and procedures, lack of clear definition of the roles of those involved in procurement and the opportunities for corruption in the procurement cycle. The ICAC investigation report on the allegations is due to be released shortly.
CONCLUSION

There are a number of conclusions to be drawn from this working paper as a procurement practitioner. Procurement is a major risk area for corruption. The research completed by the Independent Commission Against Corruption highlighted that 12% of the complaints it receives include allegations of corruption in procurement. It also found that 30% of its public inquiries make findings of corrupt conduct in relation to procurement.

There is no single method of corruption control in regard to government procurement. Having appropriate procurement policies and procedures, codes of conduct and training will only be part of the solution to minimising the opportunities for corruption in procurement. There are many factors leading to corrupt behaviours in procurement, including the lack of procurement competence in those who are carrying out procurement. More research is needed in procurement and corruption prevention.

In our business I see an opportunity to design, develop and deliver programs that raise awareness of procurement and corruption for not only public sector officials, but also suppliers and contractors to government.
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1 “Corruption cases haunt Leighton.” (12 March 2012), The Sydney Morning Herald.
vi Ibid, pages 7 – 8.
xii Ibid, page 10.
xiv Ibid, pages 6 - 7.
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