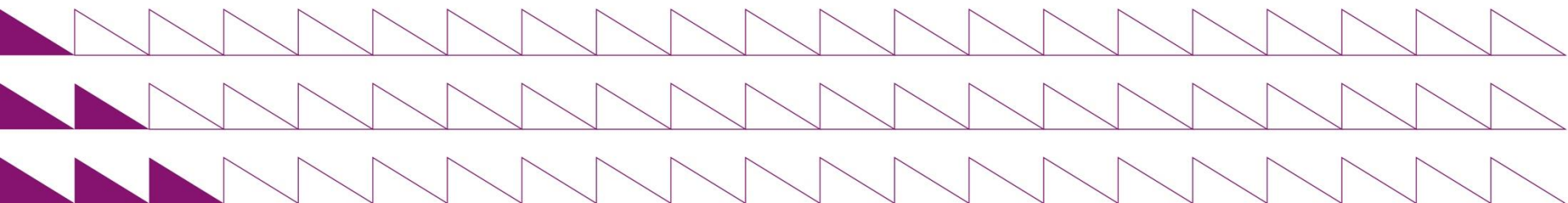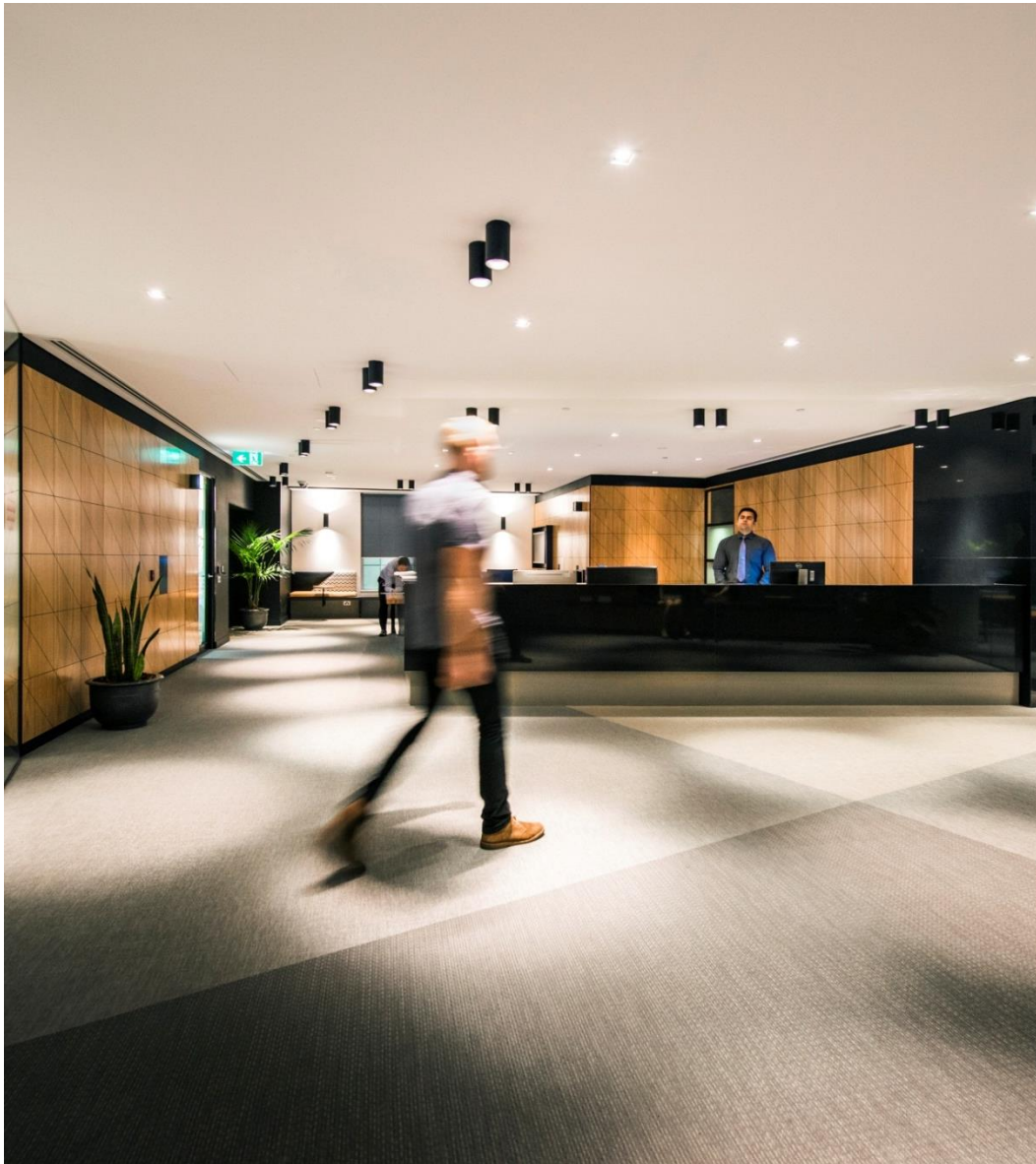# Integrity Frameworks in Local Government

Dr Stuart Macintyre – Manager, Strategic Intelligence and Research

12 November 2015

Who we are.

- Victoria's first statutory anti-corruption and police oversight body

- Established by the IBAC Act 2011

- Commenced full operations in 2013

- Commissioner Stephen O'Bryan QC

Our jurisdiction

Public sector	Councils	Police	Parliament	Judiciary

Workforce

approx	approx	approx	approx	approx
266,000	**42,000**	**16,000**	**600**	**300**

• Departments/agencies • Public healthcare services • Schools • TAFES and universities • Water and land management agencies	• Councillors • Council staff	• Sworn police • PSOs • Employees	• MPs • Electorate officers	• Supreme Court • County Courts • Magistrates' Court • Coroners Court • VCAT

What we do.

IBAC:

- investigates and exposes serious corrupt conduct and police misconduct

- helps prevent corrupt conduct and police misconduct, by informing the public sector and public opinion

How we do it.

IBAC receives and assesses complaints and notifications of suspected or alleged corrupt conduct and police misconduct

IBAC must investigate, refer or dismiss complaints and notifications.

- most complaints are dismissed or referred to other bodies – including councils - for investigation or other action.

- IBAC will only investigate matters involving <u>serious</u> corrupt conduct or police misconduct.

Our powers

IBAC has a range of powers:

- covert surveillance

- entry, search and seizure

- examinations and hearings

- confidentiality notices

- prosecutorial powers
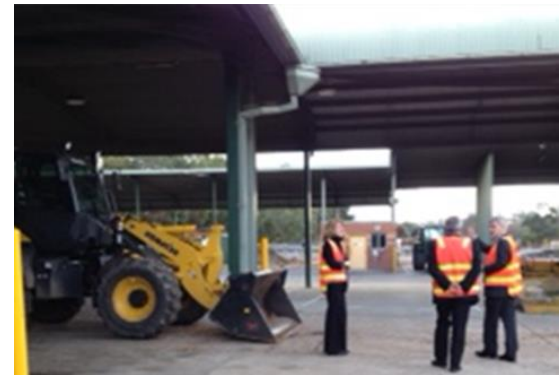
- own motion investigations

Reporting corrupt conduct

Anyone can make a complaint to IBAC about public sector corrupt conduct or police personnel misconduct

- Online   www.ibac.vic.gov.au

- Writing   GPO Box 24234 Melbourne 3001

- Phone   1300 735 135

- In person   Level 1, 459 Collins Street Melbourne

Operation Continent

This IBAC investigation with Mitchell Shire council uncovered a number of issues, including:

- poor record-keeping

- lack of accountability for small plant and equipment

- inappropriate relationships with external contractors

- inadequate controls, including lack of audits, segregation of duties and inadequate managing conflicts of interest.
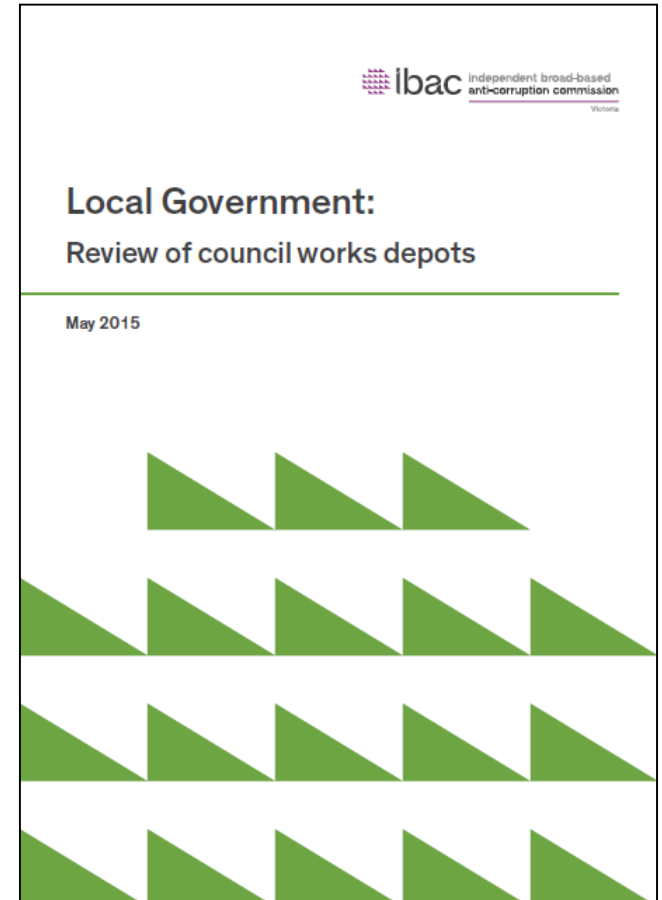
Council Works Depots

Following this investigation, IBAC undertook a wider review to focus on vulnerabilities identified through Operation Continent.

The four key areas of the review were:

- Procurement

- Management of bulk consumables

- Management of small plant and equipment

- Leadership and culture

Procurement

Key findings for **procurement** included:

- Policies and procedures for competitive tendering compiled with legislative requirements.

- Allowing employees to bid for council tenders

- Completing purchase orders after receipt of invoices

- Procurement-related risks did not appear in council risk registers

- Procurement training not sufficiently focussed on probity

Small plant and equipment

Key findings for small plant and equipment included:

- a lack of regular and random audits to confirm small plant and equipment under depot's control and assist in council's broader asset management

- all councils had some form of register, however the theft or loss of small plant and equipment did not consistently appear on risk registers

- when theft or loss of equipment was reported, responses focused on internal instances of fraud and did not consider theft by external parties.

Bulk Consumables

Key findings for **bulk consumables** included:

- only some councils had conducted a stocktake of bulk consumables that also exposed vulnerabilities and opportunities for system improvements

- most councils maintained records for storeroom items but left management of yard items to teams that frequently used those resources

- several councils used electronic systems to monitor fuel usage. Not having accurate records of supply can increase the potential for fuel to be misused

- theft and or loss of bulk consumables did not appear on any of the council's risk registers.

Leadership and culture

Key findings for **leadership and culture** included:

- some councils recognise and reward staff who exemplify the council's values or exceed performance expectations
- Expectations around employee behaviours should be made clear by the words and actions of senior managers.
- approaches to training and development varied. Councils noted it was difficult to gather depot staff together in one place at one time
- council policies are usually made available through the intranet, although not all depot staff have computer access.

INTEGRITY FRAMEWORKS IN LOCAL GOVERNMENT

RESEARCH

Overview

- Research methodology

- Key findings

- Staff Questionnaire

The Integrity Framework Review

- Research methodology

  – Organisational survey

  – Staff questionnaire

  – Interviews with key staff

- Methodological limitations

- Six councils from across Victoria

- Aimed to identify good practices and areas for improvement

Key findings from the review – General

- Risk management
  - Integrate risk assessment with business planning processes but don't forget about corruption risks
  - Identifying corruption risks is only part of the story

- Conflicts of interest
  - Have a clear policy on declaration on management
  - Record details of gifts and benefits offered
  - Have systems in place to manage councillor requests for information

Key findings from the review – Specific risks

- Procurement
  - Obtain conflict of interest declarations from tenderers and staff
  - Aggregate spends
  - Credit checks for staff involved in financial management

- Misuse of resources
  - Use technology to reduce information misuse
  - Recognise the value of assets, big and small

Key findings from the review – Governance

- Codes of conduct
  - Make it clear your council won't tolerate corruption
  - State possible sanctions for breaches of the code

- Education for staff and information for the public

- Leadership
  - Balance focus on organisational culture with controls
 - Lead from the front and set tone from the top

Key findings from the review – Detection

- Auditing
  - Involve your audit committee in reviewing potential corruption vulnerabilities

- Reporting
  - Create a clear and trusted environment in which to report
 - Be aware of the barriers to reporting

The staff questionnaire

- Online questionnaire

- Circulated to staff at the six councils involved in the project

- 631 responses received

- Approximately 20% response rate

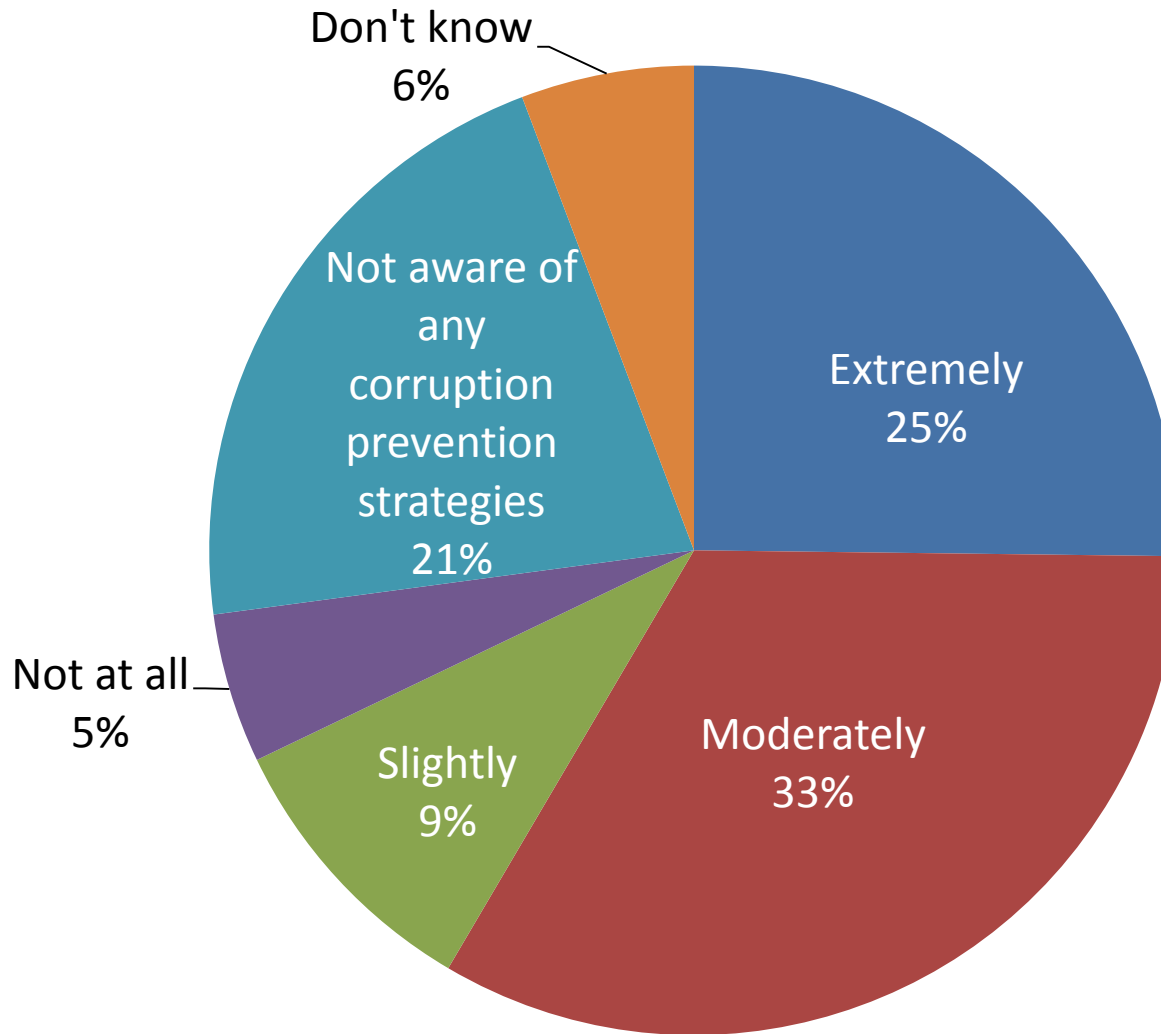- Limitations: only able to reach staff with computer access

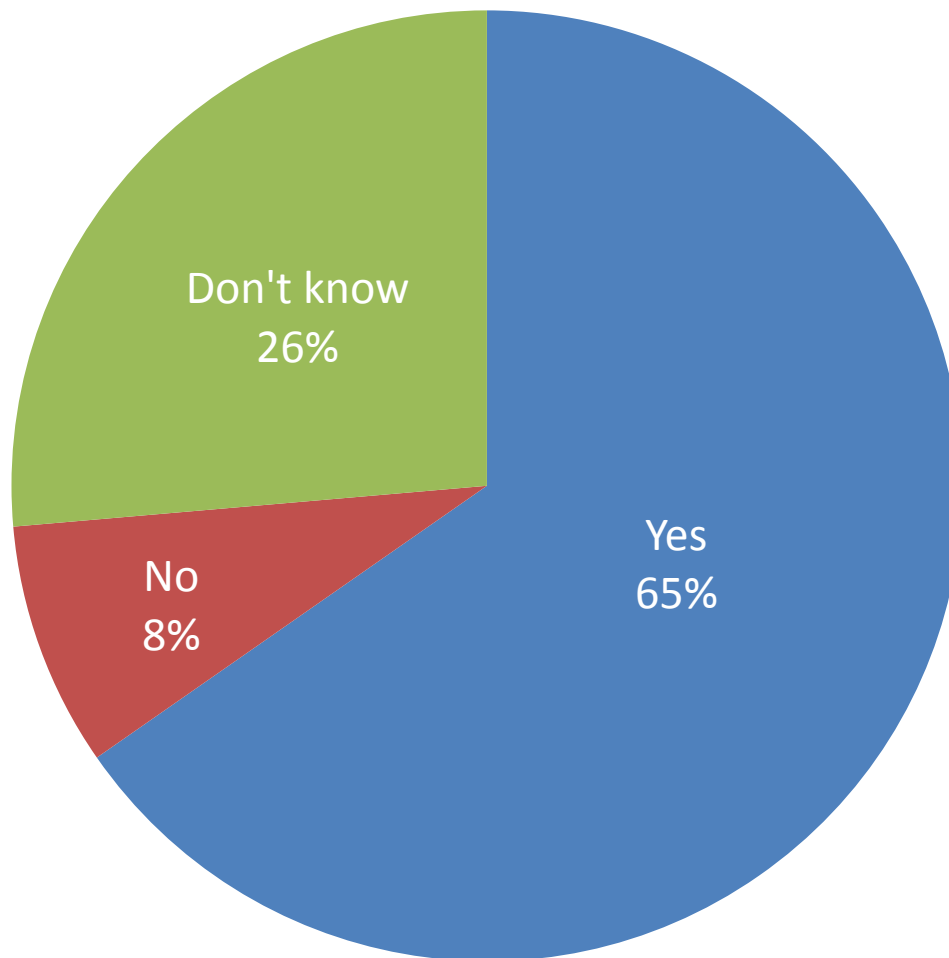# Perceived level of corruption within council

Prefer not to say 1%

A lot 3%

Some 13%

Don't know 30%

A little 28%

None 25%
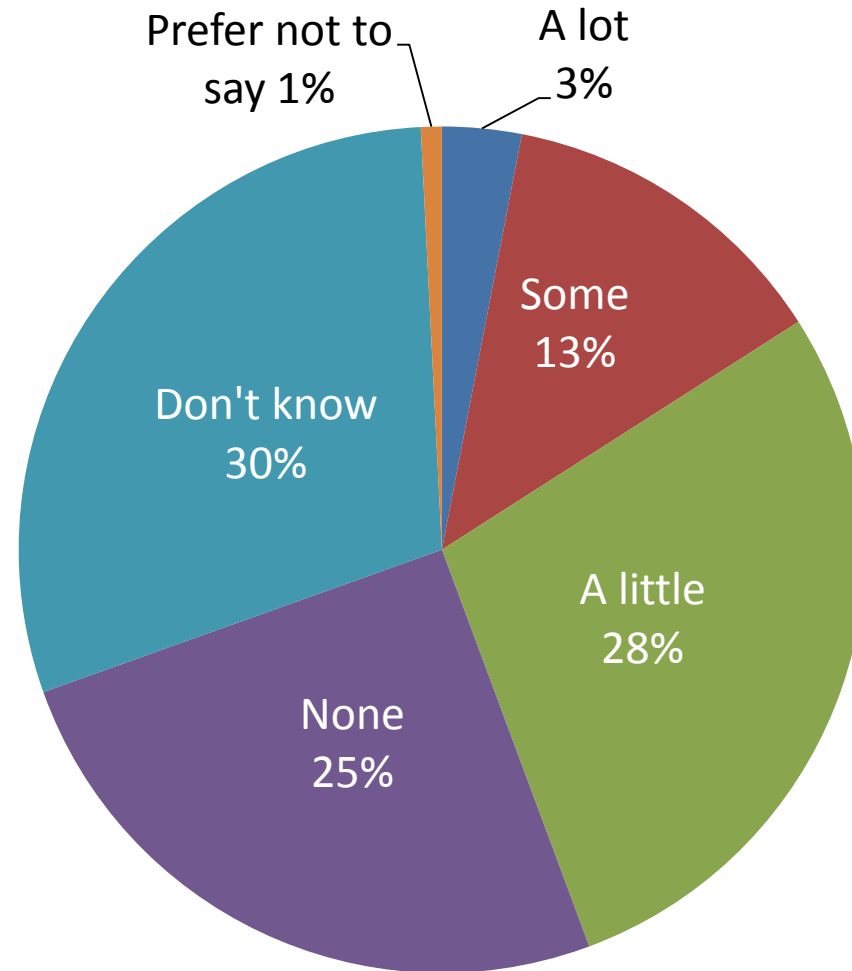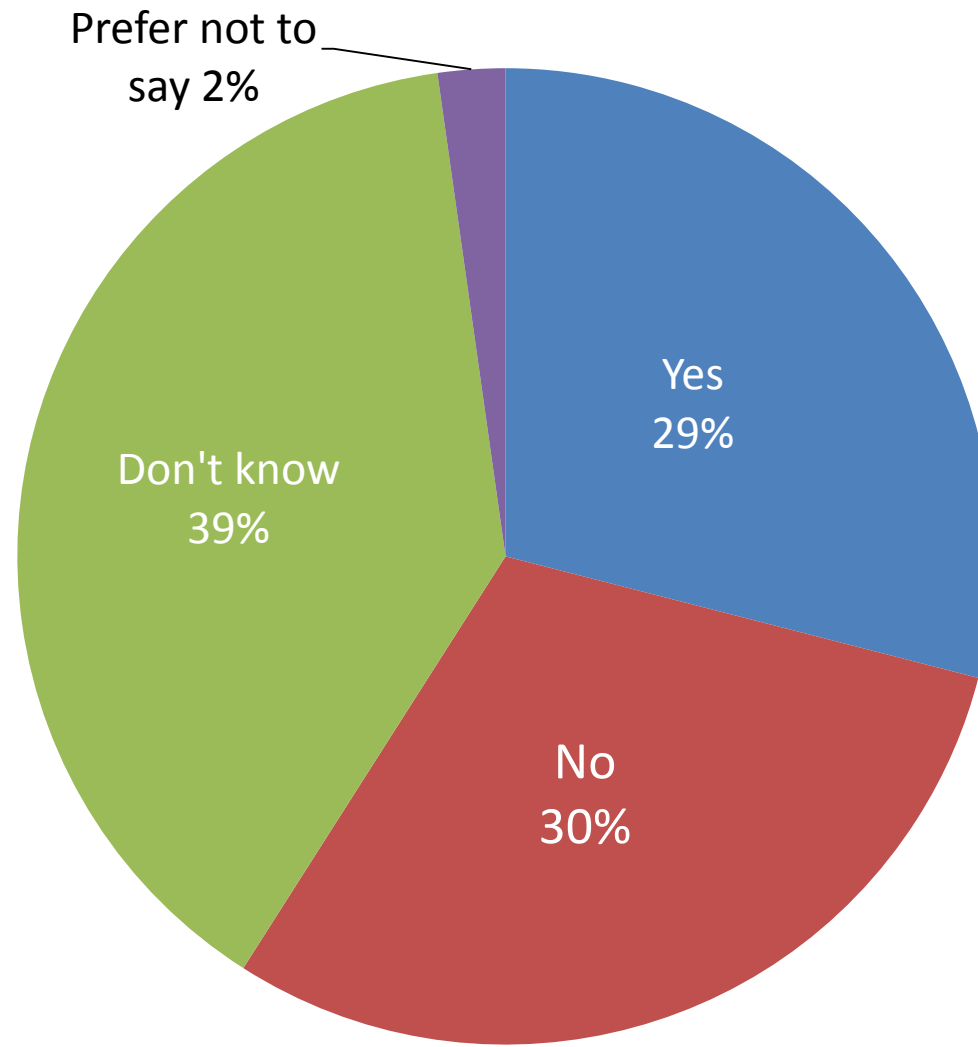
Perception of corruption risk for selected topics
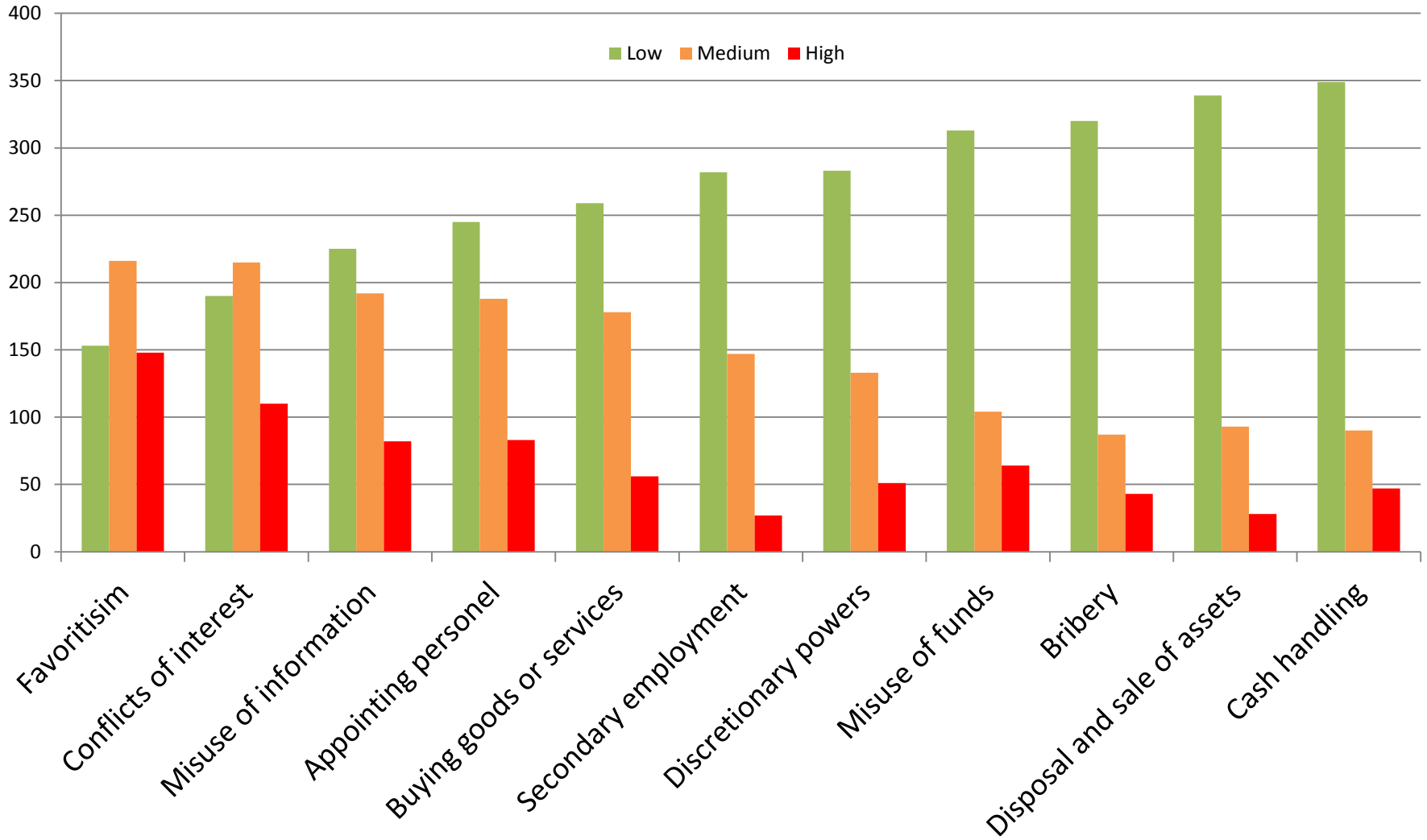
Perceived effectiveness at preventing corruption

Staff preparedness to report

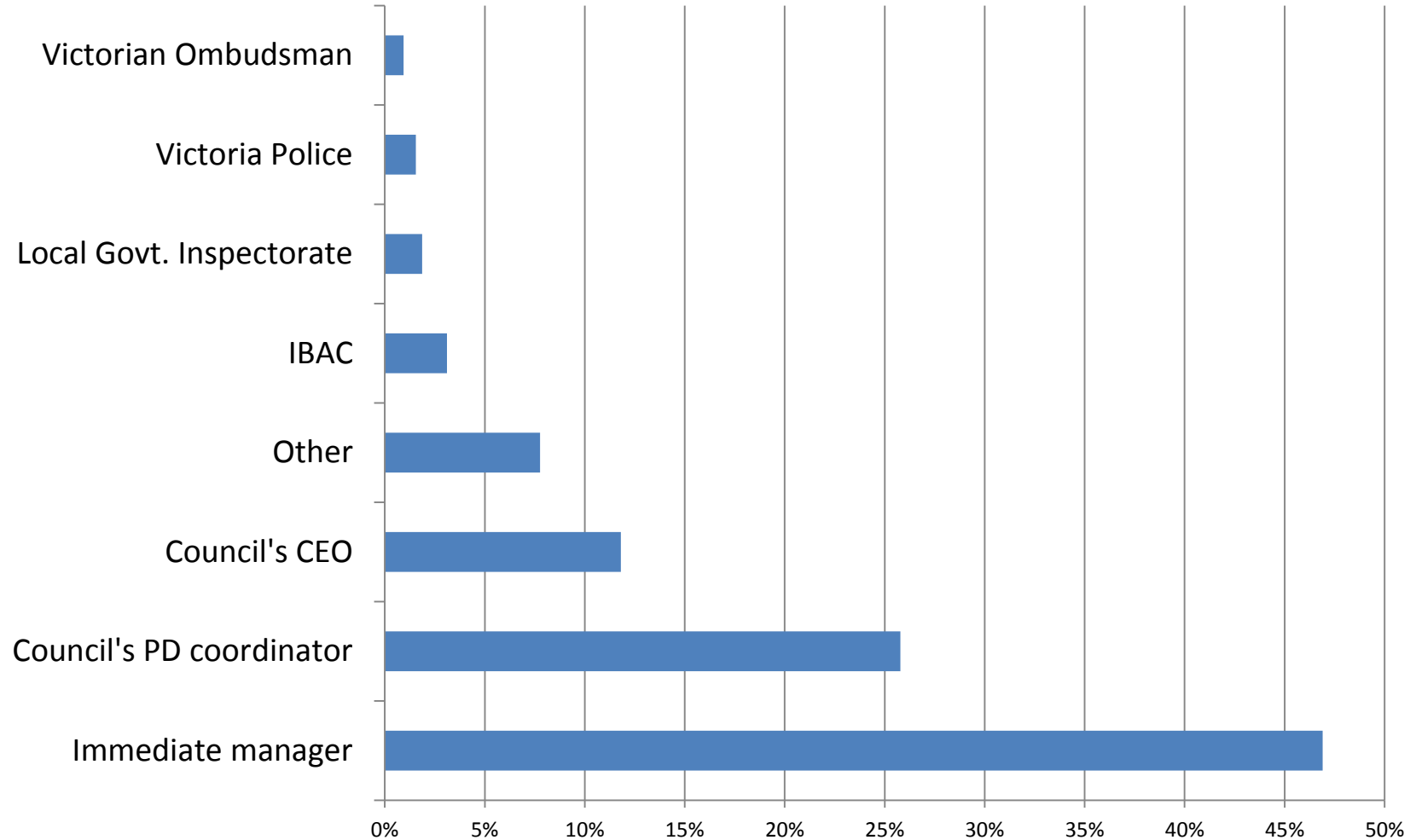# Staff confidence in protection if they reported

Prefer not to say 2%

Yes 29%

No 30%

Don't know 39%

ibac independent broad-based anti-corruption commission

Victoria

If no or don't know: Why wouldn't you report?

If yes: who would you report to?

A horizontal bar chart showing responses to "who would you report to?":

- Victorian Ombudsman: ~1%
- Victoria Police: ~1.5%
- Local Govt. Inspectorate: ~2%
- IBAC: ~3%
- Other: ~8%
- Council's CEO: ~12%
- Council's PD coordinator: ~26%
- Immediate manager: ~47%
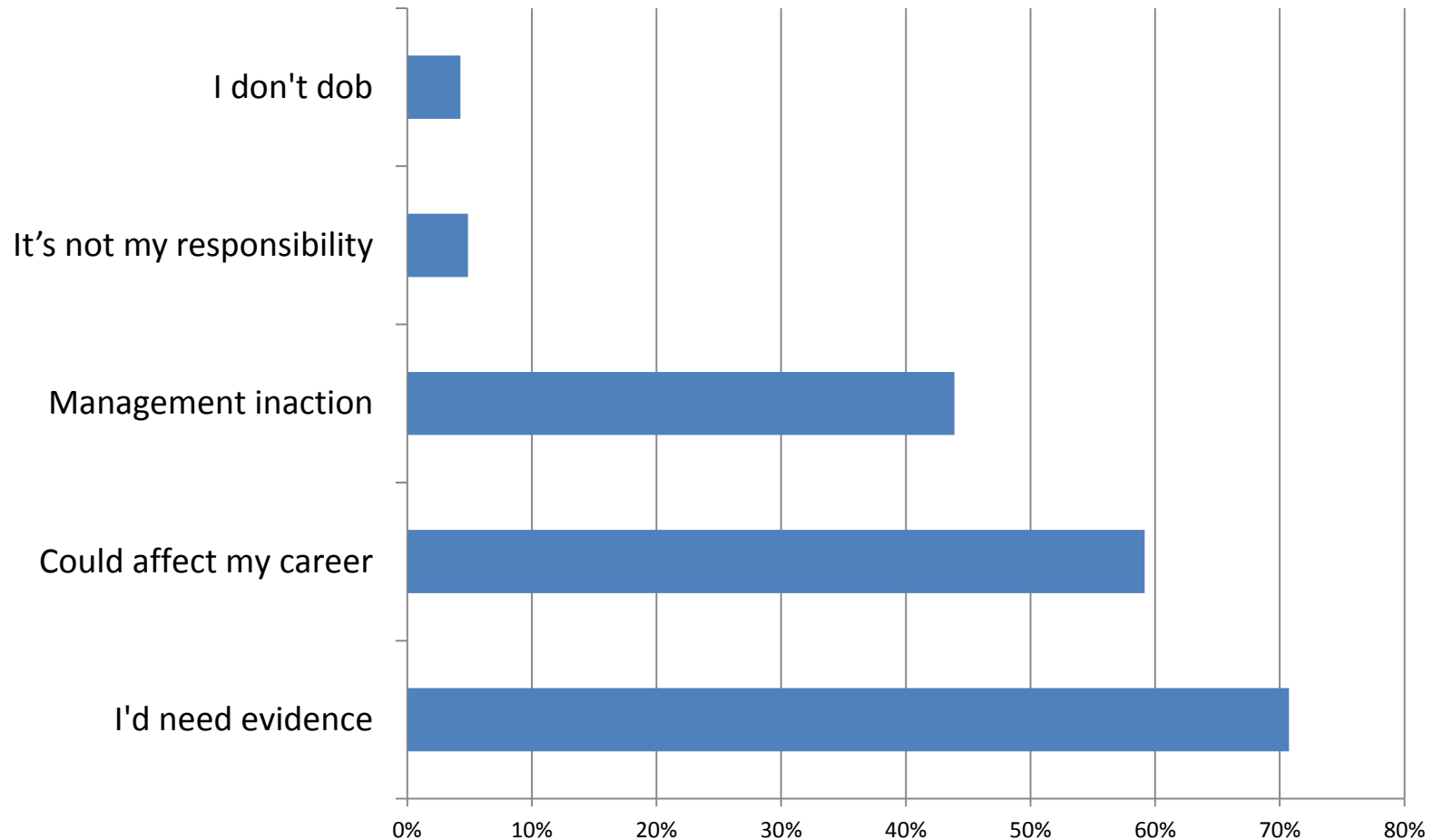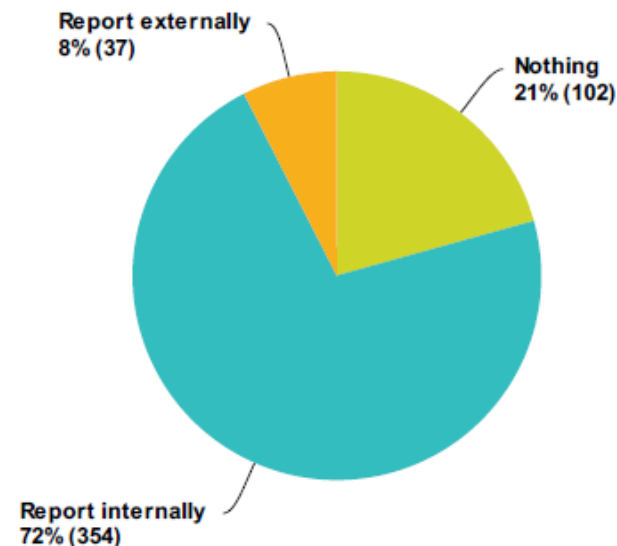
1. **What percentage of staff at your council would consider this action as corrupt conduct?**

2. **What percentage of staff at your council would:**

   - Report externally?

   - Report internally?

   - Do nothing?

A councillor approaches a council staff member and directly tries to influence an upcoming application
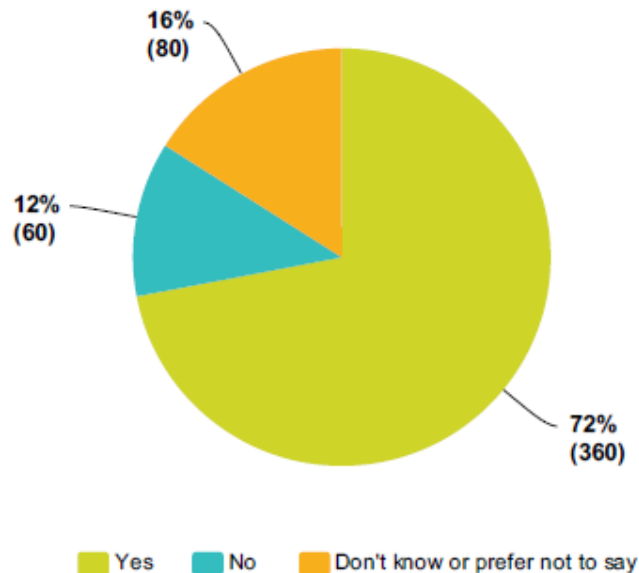
- Is the councillor's action corrupt conduct?

- What would you do if you witnessed this?

7%
(34)

3%
(15)

90%
(444)

Report externally
8% (37)

Nothing
21% (102)

Report internally
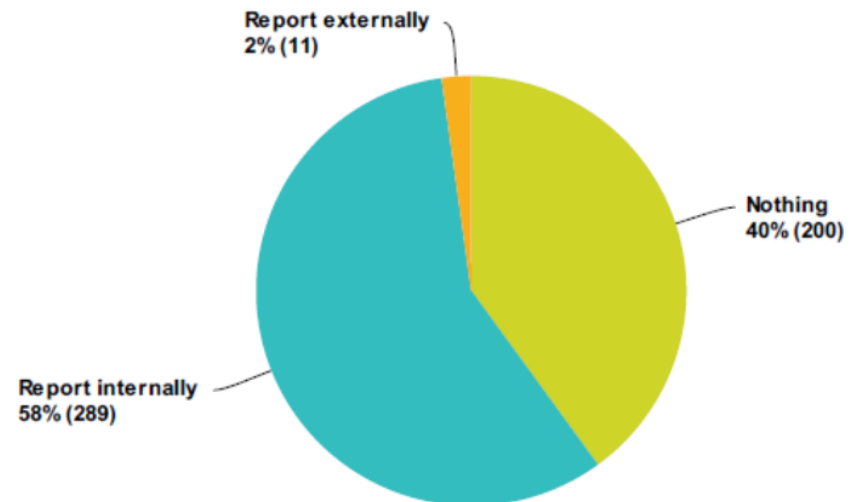72% (354)

Yes No Don't know or prefer not to say
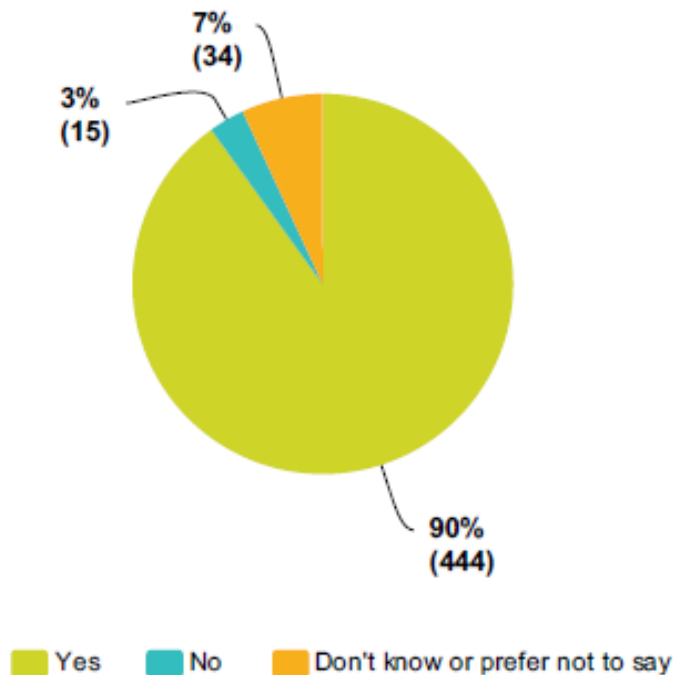
A senior employee borrows council equipment to maintain their football clubhouse at no charge.
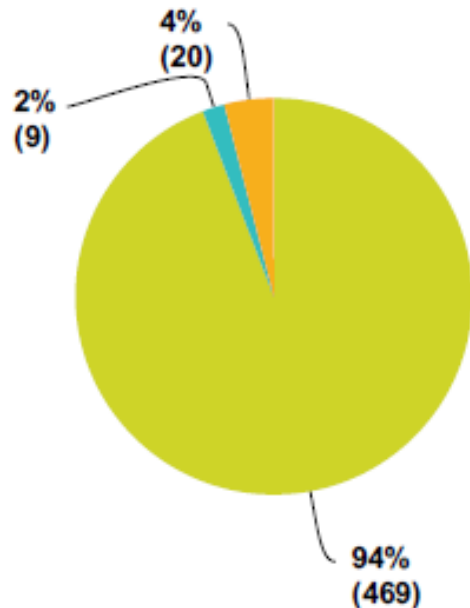
- Is the senior employee's action corrupt conduct?

- What would you do if you witnessed this?

16% (80)

12% (60)

72% (360)

Yes   No   Don't know or prefer not to say

Report externally 2% (11)

Nothing 40% (200)
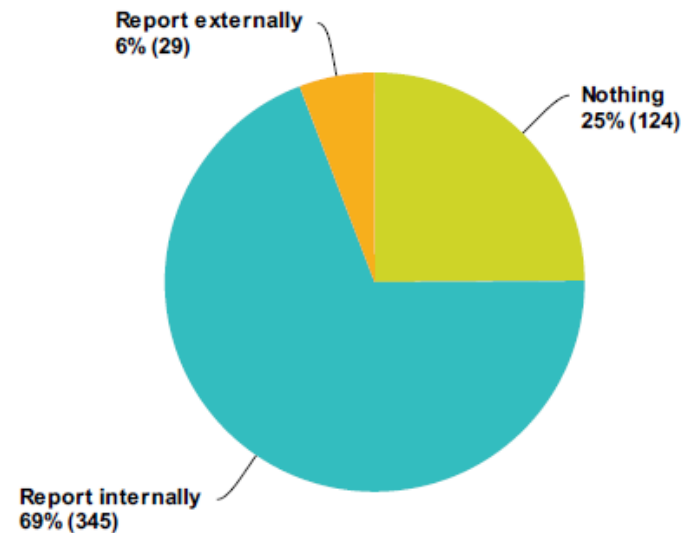
Report internally 58% (289)

An employee tells a friend about an upcoming council tender, providing confidential information to help the friend.
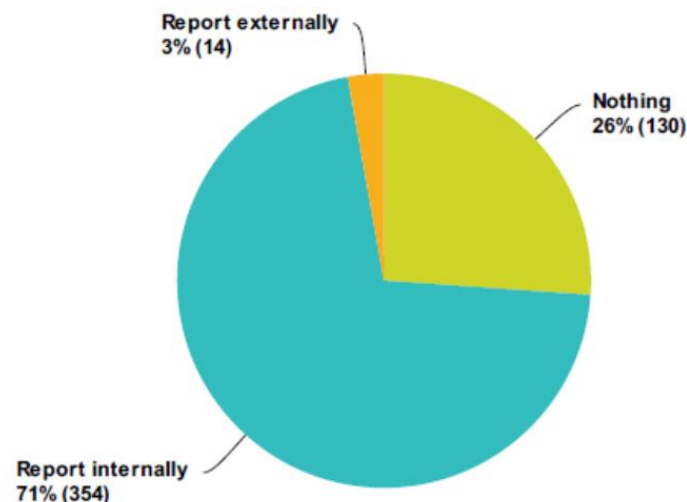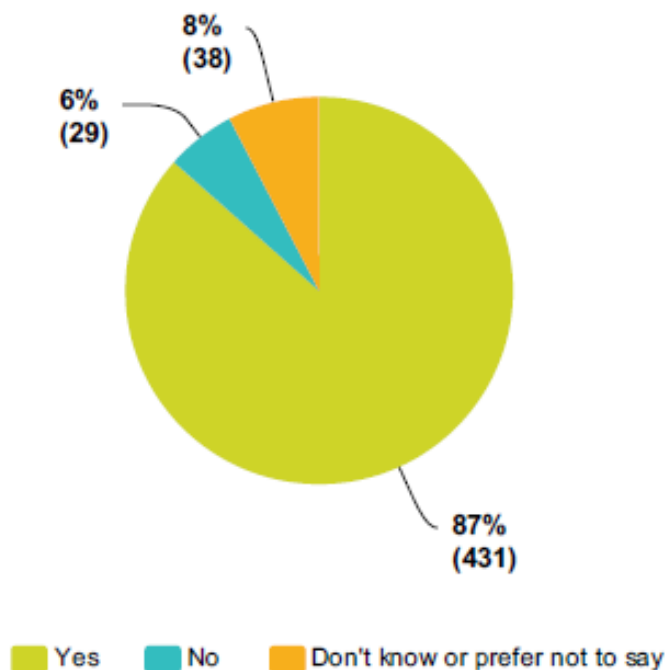
- Is the employee's action corrupt conduct?
- What would you do if you witnessed this?

4%
(20)

2%
(9)

94%
(469)

Report externally
6% (29)

Nothing
25% (124)

Report internally
69% (345)

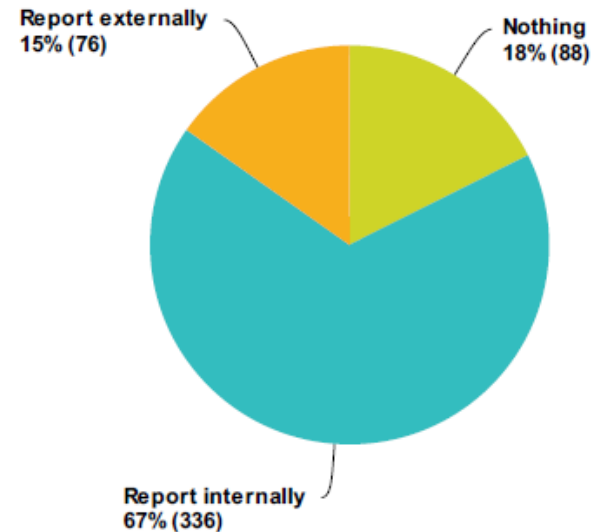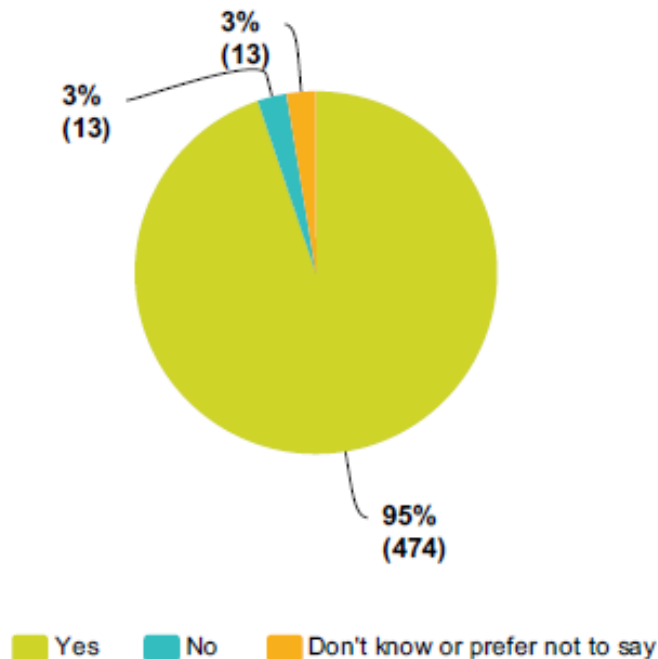Yes   No   Don't know or prefer not to say

An employee helps their spouse set up a mailing list for their veterinary clinic using data from a council register of pet owners.

- Is the employee's action corrupt conduct?

- What would you do if you witnessed this?

8% (38)

6% (29)

87% (431)

Report externally 3% (14)

Nothing 26% (130)

Report internally 71% (354)

Yes   No   Don't know or prefer not to say

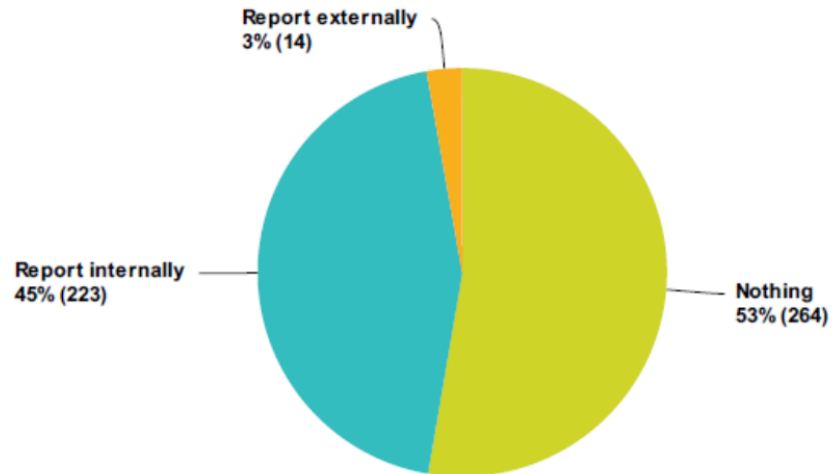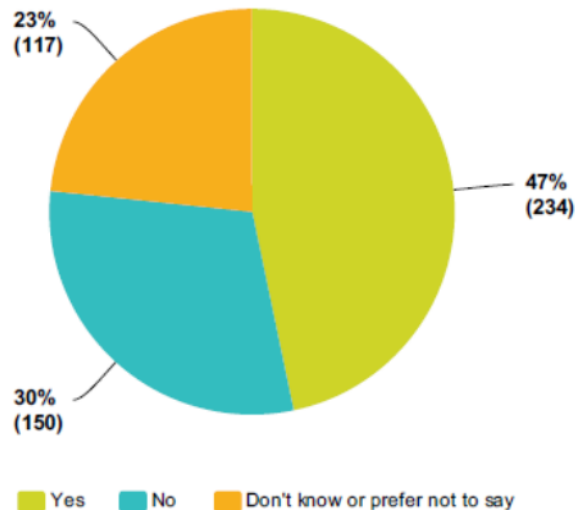# A senior employee threatens to sack a junior staff member if they report a significant fraud in their section.

- Is the senior employee's action corrupt conduct?

- What would you do if you witnessed this?

3%
(13)

3%
(13)

95%
(474)

Yes   No   Don't know or prefer not to say

Report externally
15% (76)

Nothing
18% (88)

Report internally
67% (336)

ibac independent broad-based
anti-corruption commission
Victoria

A manager appoints a qualified internal employee to a permanent position without advertising to speed up recruitment.

- Is the manager's action corrupt conduct?

23% (117)
47% (234)
30% (150)

Yes   No   Don't know or prefer not to say

- What would you do if you witnessed this?

Report externally 3% (14)
Report internally 45% (223)
Nothing 53% (264)

PTV

PTV

- Risk Management policy/procedures

- Protected Disclosure policy/procedures

- Protected disclosure management and welfare policy

- Procurement policy/procedures

- Outside Employment policy

- Managing Financial Risks policy

- Management of misconduct

- Gifts-Benefits and hospitality policy

- Conflict of interest policy

- Fraud and corruption policy

- Financial code of practice

- Code of Conduct policy

PTV

"PTV has an enterprise wide risk management framework through which key business risks are identified and assessed and mitigation plans put in place to address risks that are considered in need of additional management measures.

The risk framework includes identification of risks and implementation of mitigation plans in the areas of procurement processes, financial processes and HR operations.

In addition, PTV's current internal audit program includes the examination of procurement, payment and contract governance processes. These audits are conducted by external, independent auditors."
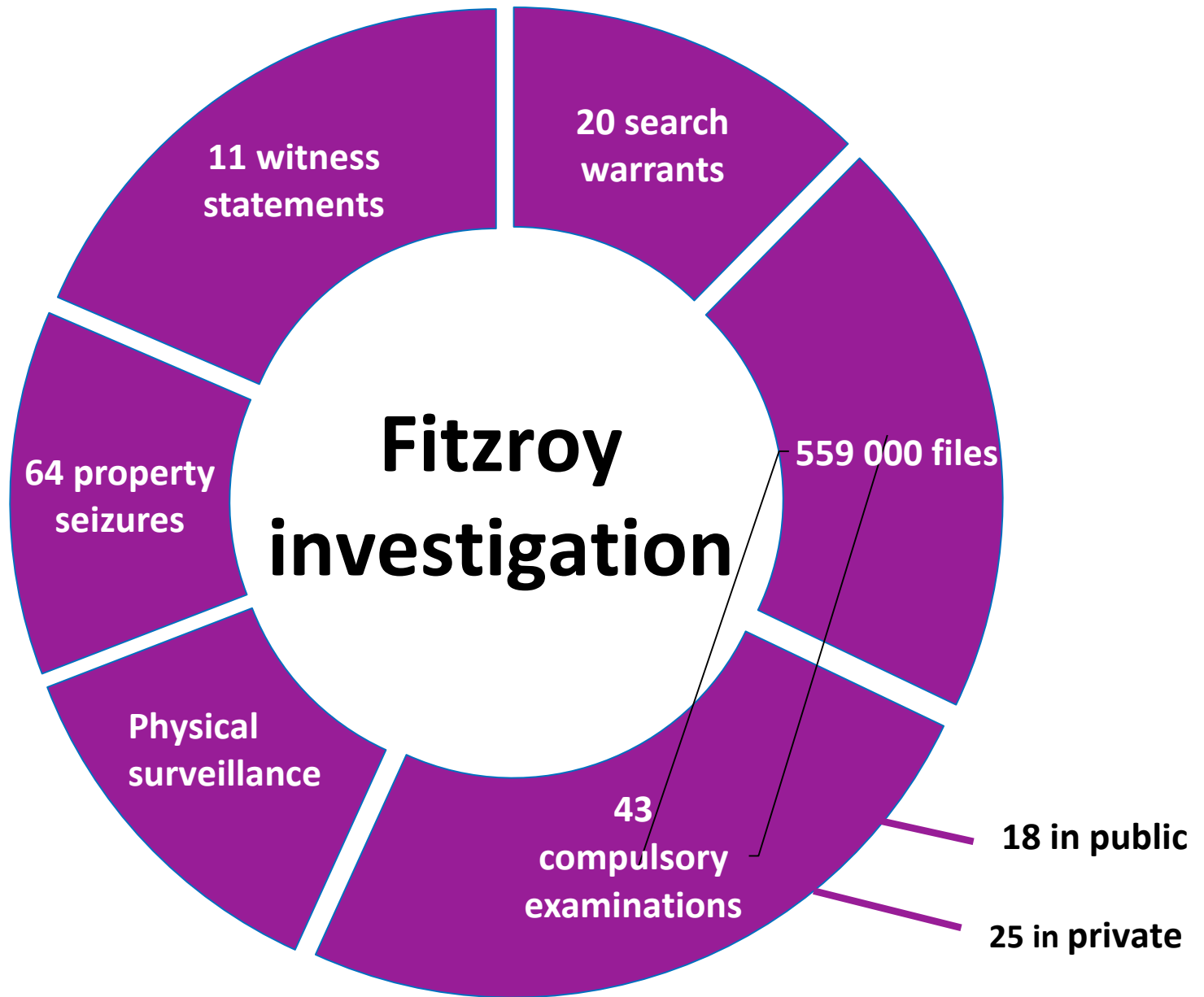
PTV

- IBAC have charged nine people with fraud-related offences following an IBAC investigation into alleged serious corruption in the transport sector.

- IBAC's Operation Fitzroy examined circumstances around the procurement of infrastructure works at Public Transport Victoria and the former Department of Transport between 2006 and 2013.

- More than 100 charges have been laid on nine individuals and one company, with alleged offences including:

  - ❖ conspiracy to cheat and defraud
  - ❖ obtaining financial advantage by deception
  - ❖ misconduct in public office
  - ❖ giving and receiving secret commissions
  - ❖ furnishing false information.

- Those charged have been summoned to appear in court

Red flags - procurement

- Procurement activities identified as high risk

- Processes subversion

- Is procurement viewed as a risk in your organisation?

- What are the red flags?

Red flags – the bidding process

- Use of exemptions

- Accepting late bids

- Inadequate due diligence

- Conflict of interest

- Fake or shell companies (dummy bids)

Red flags – the preferred supplier

- Conflict of interest (an issue throughout the procurement process)

- Correct processes and procedures followed

- Layers for the approval process

- Complaints from other bidders

Red flags – contract management and delivery

- Contract splitting

- Variations to contracts

- Purchase orders after invoice receipt

- Quality of invoices

- Quality of work/service provided

Integrity Frameworks in Local Government

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