Bribery and corruption within Australian local councils

Abstract: Despite widespread public attention towards corruption and bribery within local councils, extant research has failed to adequately investigate how corruption and bribery-related concerns are created or how bribery-related problems can be solved. This paper particularly focuses on Australian local councils to explore public concerns about corruption and bribery within the councils and provide possible guidance for policy makers to control bribery. A regulatory deficiency seems to be a major reason why local councils do not take appropriate anti-corruption or bribery measures. Therefore, regulators need to impose radical and mandatory requirements, especially reporting requirements, on local councils.

Keywords: Corruption, Bribery, Control, Disclosure, Local councils, Australia.

Introduction

The aim of this paper is to explore concerns regarding and possible measures to address corruption and bribery within Australian local councils. Australian local councils face several challenges in curbing corruption and bribery. Academic studies do not firmly show how corruption and bribery-related concerns are created or how corruption and bribery-related problems can be solved. While research has been published on bribery within corporations (see for example Dissanayake et al., 2012; Islam et al., 2013), research looking at corruption and bribery and related control measures within the public service sector is scant. Indeed, there needs to be more investigations into the nature of corruption and bribery and associated control measures within public service sector organisations such as local councils.

Public service sector organisations vary from the corporate sector in that their aims are typically manifold and complex (Lewis, 2008). Public services are also increasingly perceived by policy makers to be as important as the corporate sector in the context of wider economic and social development (Broadbent and Guthrie, 2008); there is increasing public concern regarding the misuse of public resources by public service organisations such as local councils. To have well functioning local councils that deliver quality public services consistent with community preferences, and that foster sustainable growth while managing fiscal resources prudently, is considered critical to local councils’ mission for social welfare development in Australia. Over the last two decades the central focus of accounting research within this field has moved from a public sector analysis to a public service focus, which reflects that the source of supply of services is now more mixed (Broadbent and Guthrie, 2008); the issues of transparency and anti-corruption accountability have become the central focus around public services. Although several new areas of interest have arisen in this field, including management accounting practices, social and environmental matters, and governance and intellectual capital (Broadbent and Guthrie, 2008), bribery or corruption have not been a focus.

Within Australian local councils, there is growing research that focuses on broader perspectives of accounting, accountability and reporting practices (see for example, CPA 2007, 2005; Keating, 2002; Barrett, 2004; Ryan et al., 2007). Prior research documents findings, from increasing demands from stakeholders for greater
transparency and accountability (CPA, 2007) to a lack of accounting standards and standard setting bodies to address contemporary accountability problems within local councils (Ryan et al., 2007). Despite widespread public concern about bribery, there is a lack of research that focuses on how local councils can address concerns over bribery and corruption within their own organisations. This research fills in some of the gap.

**Major public concern over bribery and corruption within Australian local councils**

Public concern over bribery and corruption in Australian organisations is increasing. For example, according to KPMG’s Forensic Fraud Survey (2006), 47% of 465 Australian organisations had experienced at least one instance of bribery (KPMG, 2006). Bribery and corruption have the potential to threaten a range of Australian government interests, including Australia’s international reputation, international social and economic development, national and international financial security, and national financial integrity (Australian Government, 2012; 2010). For Australian managers, bribery and corruption emerges as a major ethical dilemma confronting them in their organisational operations (Pedigo and Marshall, 2009).

**Concerns of major anti-corruption bodies**

The role of Australian local councils has evolved from the ‘core’ local government services such as ‘roads, rates and rubbish’ to encompass broader roles in governance, advocacy, service delivery, recreation, building, health, planning and development, and community services [(Local Government National Report (2008-2009), Local Government National Report, 2006)]. By definition, Australian local councils are essential for the protection of public utilities and resources for the welfare of entire communities. The present situation, whereby corruption and bribery is systemic within many councils, poses a huge risk to community interest. The New South Wales (NSW) Independent Commission Against Corruption documents examples of the nature of bribery and corruption experienced in NSW local councils (ICAC, 2012):

- an employee providing confidential information to a tenderer/contractor resulting in an unfair advantage;
- a procurement officer owning/managing a private company that produces goods/services relevant to their agency’s operations and submitting tenders to the agency without declaring this interest;
- two tenderers colluding with one submitting a ‘dummy’ bid and one a genuine bid; and
- an employee colluding with a contractor to falsify or inflate invoices.

The ICAC, the Queensland Crime and Misconduct Commission (CMC), the Western Australian Corruption Crime Commission (CCC) and Transparency International (TI) have been campaigning for, and providing guidelines to, increase the capacity of council managers to counter bribery and corruption within their organisations. Despite this, local councils continue to experience a greater incidence of corruption and bribery than any other state agencies (ICAC, 2010). The ICAC’s findings show that within the local council sector in NSW, staff at 110 local councils (72% of total 152 councils) have received kickbacks and bribes (Wells, 2011). The ICAC’s findings suggest that the mere adoption of policies will not safeguard an organisation against the insidious,
pervasive web of corruption by kickbacks of various kinds (Wells, 2011; Bajkowski, 2012). A series of investigations run by the ICAC have revealed many examples of bribery and corruption within local councils (see www.icac.nsw.gov.au/investigations/past-investigations). Some examples include:

- Wagonga Local Aboriginal Land Council: allegations that between March 2005 and April 2006, Ron Mason (former chairperson of the Wagonga Local Aboriginal Land Council) and Ken Foster (former coordinator of the Council) received corrupt benefits in return for facilitating negotiations (2012),
- City of Canada Bay Council: an allegation that Hedley Higgs, Manager of City Services at the City of Canada Bay Council, accepted payments from contractors engaged to conduct work for the Council, in return for showing favour to those contractors in the course of his time with the Council (2010),
- Wollongong City Council: allegations that former and current officials of the Wollongong City Council and developers engaged in corrupt conduct in relation to the assessment of development applications (2008).

The above examples of bribery and corruption within local councils provide evidence for the urgent need for effective measures and strengthening of regulation to prevent, detect and counter bribery and corruption within the delivery of public services in Australia.

**Media attention towards corruption and bribery within Australian local councils**

To further explore concerns about corruption and bribery within Australian local councils, news media articles referring to corruption and bribery in local councils have been reviewed and documented¹

The graph illustrates the amount of news media articles on bribery and corruption within Australian local councils which were reported within the leading Australian news media between 2004 and 2010. All the data collected via the Dow-Jones FACTIVA database was based on Australian news media including *The Sydney Morning Herald, Sunday Telegraph, The Age, The Australian, The Australian Financial Review* and *ABC news*.

As shown in Figure 1, media attention towards corruption and bribery within Australian local councils has significantly grown in recent years. In 2004 there were only 4 cases of bribery and corruption published in the news media. A year later, the figure dropped to a low of 2 news articles reported and remained constant until 2007. It then started to show a relatively small increase of 8 articles to record a total of 10 articles in 2008. In 2009, the number increased to 52 articles with a difference of 40 articles followed by a significant increase to 271 articles in 2010. In the year of 2011, news media experienced a further increase of 23

¹ A research assistant, using the Dow-Jones FACTIVA database, collected news media coverage on corruption and bribery occurring in Australian local councils. The FACTIVA database was used to collect media articles reported within the major Australian news media including *The Sydney Morning Herald, Sunday Telegraph, The Age, The Australian, The Australian Financial Review* and *ABC news*. The researcher also assisted with documentation of data from annual reports by two Australian local councils, which are analysed in the next section.
news articles to reach a peak of 294 articles being reported in 2011 and ending the period slightly lower than the prior year, at 272 articles. The increased amount of media attention concerning bribery and corruption within Australian local councils corroborates with the public concern demonstrated in the ICAC’s study (ICAC, 2010; ICAC, 2012 and its own website).

Figure 1: Media attention towards corruption and bribery within Australian local councils

Variations of local councils’ responses to corruption and bribery related allegations: two cases
To understand public responses to corruption and bribery allegations against Australian local councils, public disclosures by two local councils, as examples, were reviewed. They include Wollongong City Council (whose officials were accused of corruption and bribery in 2007/2008) and City of Canada Bay Council (whose manager was accused of bribery in 2010).

As shown in Table 1, Wollongong City Council’s annual reports from 2006 to 2012 were reviewed, and found to include an explicit anti-corruption policy. The Council also responded to allegations of corruption by inviting the ICAC to investigate. However, details of the investigation results were not found within the annual reports.

The City of Canada Bay Council’s annual reports from 2006 to 2012 were reviewed and found to have no anti-corruption policy included. This Council did not address corruption and bribery at all in its publicly disclosed materials. Additionally, there was no disclosure of what actions were taken in response to bribery allegations against the Council’s manager in 2010.
Table 1 Local councils’ responses to corruption and bribery related allegations: two cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Corruption/bribery Incidents</th>
<th>Anti-corruption/bribery policy</th>
<th>Acknowledgement of bribery/corruption incidents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>City of Canada Bay Council</td>
<td>Wollongong City Council</td>
</tr>
<tr>
<td>2006</td>
<td>No incident</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>2007</td>
<td>Wollongong City Council: allegations that former and current officials and developers engaged in corrupt conduct in relation to the assessment of development applications (2008).</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>2009</td>
<td>No incident</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>2010</td>
<td>City of Canada Bay Council: an allegation that the Manager of City Services accepted payments from contractors (2010),</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>2011</td>
<td>No incident</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>2012</td>
<td>No incident</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>

The review of public disclosures by Wollongong City Council and the City of Canada Bay Council suggests that both the existing anti-corruption measures and related disclosures, and accountability, were inadequate. These are just two of many examples which are consistent with the findings by the ICAC (ICAC, 2010; Wells, 2011) that there is a general lack of policy implementation across NSW local councils to curb corruption and bribery. The ICAC also has concerns over inferior policy and internal control systems that encourage bribery and corruption to occur (ICAC, 2010). From this perspective, the findings from the review of annual reports (highlighted in Table 1) resonate with the findings by the ICAC.

Motivation for bribery and corruption and possible anti-bribery/corruption guidance

**Brief overview of motivation for bribery and corruption within Australian local councils**

The motivation for bribery and corruption within Australian local councils can be seen from Cressey’s (1953)\(^2\) fraud triangle lens. Regardless of the many ways (bribery and corruption is one way) to commit fraud, there are generally three common elements and they make up what is known as the fraud triangle (Cressey 1953; Albrecht \textit{et al.}, 2012, p. 34). These are \textit{perceived pressure} (financial, vices (e.g. drugs, alcohol, gambling), work or other), \textit{perceived opportunity} (wider scope to commit fraud, conceal fraud or avoid being punished, for example, weak policy or internal control systems may create the scope to commit fraud) and \textit{rationalisation} (being able to justify the fraud in some way, for example, ‘I am underpaid by my employer’).

\(^2\) Although Cressey’s (1953) fraud triangle is dated, researchers still find the relevance to explain contemporary frauds (within accounting literature, see for example Dellaportas, 2013; Srivastava \textit{et al.}, 2009). Most importantly, little is still known about the phenomenon of the Cressey’s (1953) fraud triangle within the local council and in this paper the fraud triangle provides useful insights to understand corruption and bribery within the Australian local councils.
Of these elements, eliminating opportunity is the most important although minimising pressure and rationalisation should not be underestimated (Albrecht et al., 2012, p.51). Most importantly, without opportunity, the fraud cannot occur (Albrecht et al., 2012). Of Cressey’s triangle, it is the manifestation of opportunity for corruption and bribery to occur undetected that is the most relevant to this paper, as curbing the scope of this opportunity can be controlled. The key opportunities created within Australian local councils can be attributed to:

a) Inadequate screening of employees. This allows dishonest individuals to come into an organisation (as per the examples of bribery by local council managers highlighted in the earlier section);
b) Inadequate internal policy framework and control systems for effective corruption and bribery detection. The regulatory bodies such as the ICAC have found that weak policy framework and policy implementation by local councils allows corruption and bribery to take place;
c) Inadequate fraud awareness training. It was evident from the review of two councils’ annual reports and the ICAC’s documents that lack of employee commitment is one of the reasons for bribery and corruption;
d) Weak regulation of local councils in Australia, despite international and national guidelines to eliminate corruption and bribery. In particular, the absence of a separate accounting regulatory body for local councils (Ryan et al, 2007) gives weak signals to the sector which can lead to manipulation, fraud and corruption;
e) A lack of mandatory reporting requirements. As evidenced from the cases discussed earlier, there appears to be a widespread variation of bribery and corruption reporting by local councils. In particular, the absence of adequate disclosure of anti-corruption and anti-bribery policy and related actions can further stimulate bribery and corruption.

**Possible guidance to control bribery and corruption within local councils**

If regulators and government or policy makers expect to control bribery and corruption within local councils, they have to eliminate the scope of opportunity for corruption and bribery. Some preventive measures are discussed next.

Effective control of corruption and bribery broadly ranges from an appropriate “tone at the top” robust recruitment process to fraud awareness training and effective internal controls at an operational level. Within an organisation, a perceived opportunity for corruption and bribery exists when an individual believes internal controls can be overridden (because that individual is in a position of trust or has specific knowledge of weaknesses in internal controls), there is an ineffective monitoring of management and complex organisational structure, and there is scope for subjective accounting judgments. While Australia has extensive corporate governance mechanisms for the protection of corporate shareholders
particularly via the Australian Stock Exchange Corporate Governance Council, in the case of public service sector management, corporate governance is yet to be explicitly defined. There is a lack of sound governance mechanisms that recognise the diversity of objectives in the public service and the diversity of stakeholders and the need for integrity, honesty and high standards of propriety and probity given the stewardship of public funds. To achieve the goal of providing a variety of stakeholders with services in the public interest, public service organisations such as local councils must incorporate good governance and effective internal control policies and procedures to curb bribery and corruption.

Prior studies also document findings, from increasing demands from stakeholders for greater transparency and accountability (CPA, 2007) to a lack of accounting standards and standard setting bodies to address contemporary accountability problems within local councils (Ryan et al., 2007). Therefore transparency, accountability and availability of adequate accounting standards within local councils are also essential strategies for curbing corruption and bribery.

Within public service sector management, annual reports are viewed as the cornerstone of local council accountability (Ryan et al., 2002). There is a need for a public sector accounting body to guide the public service sector (including local council) financial reporting requirements (Ryan and Mack, 2007), as well as to deliver more precise standards and measures to solve contemporary organisational problems including bribery and corruption. Ryan et al., (2002, p.278) states:

If the degree to which accountability is rendered through annual report disclosures can be reliably measured, then the issues which need to be addressed in order to improve accountability disclosures can be more meaningfully investigated, both by academics and public policy practitioners who are responsible for the integrity of accountability mechanisms

In an attempt to explore whether local councils adopt anti-bribery and corruption policies within their own organisations, annual reports by two councils (see Table 1) were reviewed. The researcher found that policies and procedures in the areas of anti-corruption and bribery are inadequately addressed in annual reports. The annual reports also revealed a lack of adequate responsiveness by local councils to allegations of bribery and corruption. The imposition of mandatory reporting requirements on local councils including disclosure of policy, procedure and responsiveness to bribery and corruption is necessary as a preventive measure.

As discussed earlier, local councils do not disclose adequate amounts of anti-corruption and bribery policies and measures. There is also a marked absence of adequate anti-bribery and corruption guidelines within Australian local councils. In the absence of effective local anti-bribery and corruption standards, there are a number of international governmental organisations (IGOs) that seek to counter corrupt practices at both local and national levels. Some IGO anti-corruption guidelines are documented in Table 2.

Globally, a number of IGOs, including the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN), TI, and the World Bank are actively involved in developing and implementing various anti-bribery guidelines. These guidelines mainly focus on: (1) Accounting for Combating Bribery/Corruption; (2) Board and Senior Management Responsibilities; (3) Building Human Resources to Combat Bribery/Corruption;
(4) Responsible Business Relations; and (5) External Verification and Assurance. IGOs expect organisations to visibly address their guidelines. Therefore, disclosures of anti-bribery and corruption measures and related accounting practices is of paramount importance for organisational transparency and accountability within both global and local settings.

Table 2: Major anti-bribery guidelines by IGOs

| Organisation for Economic Co-operation and Development (OECD)³: |
| OECD Anti-Bribery Convention and the 1997 revised recommendations; In 2000, Anti-Bribery Convention recommendations on export credit and credit guarantees which state that governments are obliged to take action to deter and sanction bribery of foreign public officials in international business supported by official export credit. |

| United Nations (UN): |
| Tenth Principle of the United Nations Global Compact launched on July 2000; In 2003, the General Assembly adopted the UN designated 9 December as International Anti-Corruption day; UN Convention against Corruption entered into force on 14 December 2005. |

| World Bank: |
| Adopted new Governance and Anti-Corruption strategy in March 2007 including seven principles to fight global corruption. |

| World Economic Forum: |
| Partnering Against Corruption Initiative (PACE) 2010. |

| TRACe International: |
| Anti-bribery compliance program and Anti-bribery risk assessments 2001. |

| Transparency International (TI)⁴: |
| Introduced the “Corruption Fighters’ Tool Kit”- civil society experiences and emerging strategies in 2001 and later in 2002, and 2004 make new edition; TI first launched Annual Corruption Perception Index (CPI) in 1995 but in 2010, TI introduced more advance CPI which measured the perceived level of public sector corruption in 178 countries around the world; Bribery Payers’ Index (BPI) was introduced in 1999 which evaluate the supply side of corruption; Global Corruption Barometer (GCB) was launched on 9 December 2010 which is a survey that assesses general public attitudes toward, and experience of corruption in, dozens of countries around the world. |

| Partnership for Transparency Fund (PTF): |
| PTF’s Citizens Against Corruption Program (CAC) |

³ The OECD Anti-Bribery Convention establishes legally binding standards to criminalise bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective. It is the first and only international anti-corruption instrument focused on the ‘supply side’ of the bribery transaction. The 34 OECD member countries and four non-member countries - Argentina, Brazil, Bulgaria, and South Africa - have adopted this Convention (OECD, 2011, www.OECE.org/ home page). In 2010, the OECD approved “Principles for Transparency and Integrity in Lobbying” representing the first international policy instrument to provide guidance for policy-makers on how to promote good governance principles in lobbying (OECD, 2011, www.OECE.org/ home page). |

⁴ Transparency International (TI) is the global civil society organisation leading the fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption and works with partners in government, business and civil society to develop and implement effective measures to tackle it (p.17). (TI, 2009):
Conclusion

This paper identifies some of the key motivations for and possible corrective measures to address corruption and bribery within Australian local councils. The opportunity for bribery and corruption to take place within councils has been linked by an important anti-corruption commission, the ICAC, to weak policy framework. There is also evidence that a lack of managerial commitment and low levels of adequate disclosures of anti-corruption policies and related actions by local councils further stimulates incidences of bribery and corruption. In particular, the absence of a separate accounting regulatory body for local councils (Ryan et al., 2007) gives weak signals to the sector which can lead to manipulation, fraud and corruption. Despite growing public concern generated by media attention towards allegations of corruption and bribery, there is a lack of adequate responsiveness by local councils to address such concerns.

Australian local councils need to implement effective measures and reposition their organisations to be able to detect and prevent bribery and corruption. Good governance with effective internal control policy and procedure is prerequisite for prevention of bribery and corruption. Closely tied with good governance, transparency, accountability and availability of adequate accounting standards within council management structures has become imperative in curbing bribery and corrupt practices. While annual reports are viewed as the cornerstone of local council accountability, adequate responsiveness within these reports to allegations of corruption and bribery would ensure that appropriate standards of transparency, accountability and good governance are met. Regulators also need to impose mandatory and adequate reporting requirements on local councils to guarantee that anti-corruption policies and measures are disclosed. In the absence of adequate anti-corruption standards, there are a number of IGOs that focus on fighting corruption at the local and country level. Despite this, policies are weak and bribery-related corrective measures are not yet sufficiently advanced.

With increasing dissatisfaction with local councils’ performance and public concerns relating to this (including parliamentary concerns about bribery), the Australian people have perhaps never been in greater need of a detailed understanding of the ongoing challenges and intractable problems they (the councils or the wider Australian community) face. This paper provides a base for further research to explore new and in-depth insights into reasons for bribery and how to prevent it. Further research is required to enhance knowledge that is expected to be of lasting significance to accountability theories and regulatory policies within Australian local councils. As a final point, there is a need for attention to be paid to the issue of bribery and corruption in other nations (including developing nations) as lessons can be learned from the study.
References


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