

Van der Wal, Zeger; **Graycar, Adam**, and Kelly, Kym (2016) "See no Evil, Hear no Evil? Assessing Corruption Risk Perceptions and Strategies of Victorian Public Bodies" *Australian Journal of Public Administration* Vol 75 (1), 3-17
<http://dx.doi.org/10.1111/1467-8500.12163>

See no Evil, Hear no Evil?

Assessing Corruption Risk Perceptions and Strategies of Victorian Public Bodies

Zeger Van Der Wal *

Adam Graycar **

Kym Kelly ***

*** LKY School of Public Policy, National University of Singapore**

**** School of Social and Policy Studies, Flinders University, Adelaide Australia**

***** School of Social and Policy Studies, Flinders University, Adelaide Australia**

Most of the work in researching and writing this paper was done at the Australian National University.

The Independent Broad-based Anti-corruption Commission (Victoria) funded the survey work that is reported here

Introduction

How do Victorian public bodies perceive and assess corruption risks? Are corruption related risks at all on the radar of various types of agencies across the state? If not, how can or should this be explained? Which strategies are in place and should be in place to mitigate risks and prevent corrupt practices by employees and stakeholders? We examine these questions by reporting on a study conducted by the Australian National University (ANU) in 2013 commissioned by the Victorian Independent Broad-Based Anti-Corruption Commission (IBAC) (see Graycar 2014). 36 public bodies of various size, type, and stature participated in the survey which includes an integrity systems review and various open-ended questions about perceived corruption risks, their nature and prevalence, and the mitigating strategies these bodies might have in place to address these risks and maintain organizational integrity.

We frame our study within the key debate on whether and in what contexts organizations should pursue a compliance-based approach vis-à-vis a values-based approach to integrity management (Maesschalck 2004; Paine 1994), with a particular focus on developed countries which usually fare well on international rankings and indices in the areas of corruption and integrity.

Indeed, increasing evidence suggests that a narrow focus on compliance measures without regular and serious attention to ethics awareness, training, and leadership poses its own types of risk in developed, relatively corruption-free countries, such as Australia, New Zealand, the UK, or the Netherlands (Heywood 2012; Hoekstra and Kaptein 2014; Petrie 2014; Van den Heuvel et al. 2010). Put briefly, having Integrity 1.0 (legal, hard controls in the spirit of the compliance approach) in place, is not enough, particularly in countries where overall incidence of corruption and unethical behaviour is low; promulgating Integrity 2.0 (training, awareness, and ethical leadership in the spirit of the values-based approach) and Integrity 3.0 (integrity as ingrained, “regular” professional responsibility) are crucial in preventing complacency and naivety (cf. Karssing and Spoor 2010). We want to see to what extent these observations apply to the Victorian case and whether we can provide innovative and amalgamated suggestions for improvements to public sector integrity management in Australia, and beyond.

The paper first reviews existing literature on strategies and approaches for integrity management in organizations, and key issues and potential solutions for creating organizations of integrity, with a focus on the public sector. Second, it discusses the methodology and sample for this study. The third part of the paper presents the findings on corruption perceptions and assessment, and strategies to mitigate these risks including training, awareness, and education across the 36 public bodies surveyed. Fourth, the paper concludes by discussing the findings in light of the broader literature on effectiveness of integrity management strategies in developed political economies, and providing suggestions for institutionalizing integrity in public sector organizations in Victoria, and beyond, with Integrity 3.0 as ideal end state.

Compliance, Awareness, and Effectiveness

Various views on integrity management and corruption have been developed in Public Administration and Business Ethics. This paper does not engage the perennial debate about the many interpretations of corruption. Rather, it follows the Victoria *IBAC Act 2011*(Vic), Section 4 (1) which describes corrupt conduct as conduct of any

- Person that adversely affects the honest performance by a public officer or public body of their functions
- Public officer or public body that constitutes or involves the dishonest performance of their functions
- Public officer or public body that knowingly or recklessly breaches public trust
- Public officer or public body that involves the misuse of information or material acquired in the course of the performance of their role or function, whether or not for the benefit of the public body or person;
- Public officer or public body who conspires or attempts to engage in the above corrupt activity.

An analytic approach to understanding types, activities, sectors and places of corruption can be found for example, in Graycar and Prenzler (2013).

Shifts in Thinking about Organizational Integrity Violations: Apple versus Barrel

Scholars differ in their views of whether, how, and to what extent, integrity can be managed within organizations (Paine 1994; Trevino and Nelson 2004; Menzel 2005,

2012). One school of thought suggests that values and moral standards are taught in a child's upbringing and organizations and management are therefore virtually unable to affect individual or group conduct. Thus, as argued by Bowman (1990) responsibilities for ethical behaviour should to lie entirely with the individual employee and not with the organization. From that perspective, integrity management was often restricted to establishing good recruitment and selection policies ("hire"), and taking measures against incidents in the event an employee oversteps the mark ("bad apple") by starting an investigation and, if necessary, dismissing the employee involved ("fire") (see also Hoekstra 2015).

Another school assumes that organizations are able to encourage and support ethical conduct of employees. From that perspective, attention shifts from the limited hire and fire policy to the creation of integrated integrity management systems that involve organizational structure and culture. Wrongdoing will then no longer just result in removal of the bad apple. In addition, attention will be paid to any flaws in the organizational structure and culture that could infect healthy apples ("bad barrel"). This could include the imposition of unrealistic and unilaterally set targets or the exertion of pressure, which encourage integrity violations (Hosmer 1987; Heineman 2007).

Since the mid-1990s however, integrity management has shown considerable development and improvement both in theory and practice, while contrasting views on the right and most effective approach have continued to exist. Clearly, most experts now assume that organizations have to take up the responsibility to support ethical conduct of employees through the implementation of broad integrity policies as key element in being a good employer (Hoekstra 2015; Huberts 2014).

Professional compliance literature and relevant national¹ and international standards on compliance, risk assessment and fraud and corruption control now stress that senior management commitment ("Tone at the Top") to an ethical culture and a corruption-

¹ See for example Standards Australia 2008, *Fraud and Corruption Control*, AS 8001-2008, Standards Australia, NSW. Top down commitment joined with bottom up commitment are also major principles in Standards Australia 2006, *Compliance Programs*, AS/NZS 3806, Standards Australia, NSW.

free organisation is of paramount importance in any effective compliance management system for corruption prevention.

Views on Effectiveness of Integrity Management: Compliance versus Integrity

Literature on integrity management distinguishes and contrasts the “compliance-based approach” with the “integrity” or “value-based approach” (Maesschalck 2004; Paine 1994). The first strategy emphasizes (top-down) imposition of rules and regulations, intended to prevent non-compliant behaviour and promote norm-compliant behaviour, through exercising internal and/or external supervision, control and the punishment of offenders. This strategy has an underlying negative, Type X disposition towards individuals, implying they cannot be trusted and their behaviour needs to be externally regulated and enforced. Key instruments are the various rules for declaring assets and interests, screening of employees, penal codes on corruption, and a wide range of disciplinary sanctions and procedures.

The second strategy emphasizes joint (bottom-up) formulation and internalization of the organizational aspirations and values and promotion of ethical behaviour through strengthening the moral competence of employees. Joint formulation of codes of conduct, and ethics education and awareness training (e.g., through dilemma exercises) as well as “values jams” are instruments which characterize this approach (Maesschalck 2004). This strategy has a more positive, Type Y image of employees.

Most studies however, propose some type of combination of both strategies to be most effective (Van Blijswijk et al. 2004; Cooper 2006; Lawton, Rayner & Lasthuizen 2013). Karssing and Spoor (2010) have proposed a more “sedimentary” view on integrity management where one approach provides the foundation for the other; organizations need to have Integrity 1.0 (the basic compliance-inspired infrastructure) in place before they can move on to master Integrity 2.0 (ethical consciousness and awareness), and so on. These authors emphasize that many developing countries with rampant corruption issues should first get their house in order by implementing integrity 1.0 before they start emphasizing training and awareness, whereas in developed countries with different types of ethics issues, the focus should be on a continuous conversation on

values, dilemmas and grey areas. Ultimately, countries and agencies should reach the stage of Integrity 3.0 where it is engrained throughout as self-evident professional responsibility.

Informal versus Formal Institutionalization

Moving to how different strategies and means of integrity management can be embedded or institutionalized, the literature again distinguishes two approaches which relate in some ways to the two strategies outlined above: informal and formal institutionalization (Brenner 1992). The more implicit and indirect informal approach includes issues such as behaviour of colleagues and supervisors, the creation of shared values, fair remuneration, appraisal and promotion systems, and rewarding of “good” behaviour. Advocates of this approach often label formal policy as an empty shell that is mainly symbolic (Sims and Brinkmann 2003). Organizations often devote limited attention and resources to formal programs (Weaver, Trevino, and Cochran 1999), which has led others to emphasize the necessity of a more culture-oriented informal approach (Murphy 1988; Petry and Tietz 1992; Vitell and Singhapakdi 2008).

The formal approach is explicit, direct and visibly aimed at promoting ethical behaviour within organizations (Heres 2014; Tenbrunsel, Smith-Crowe and Umphress 2003). This approach stresses development and formalization of sustainable structures, and standards that support and embed ethical conduct of employees in the organization (Cummings & Worley 2001; Pajo and MCGhee 2003; Sims 2003). According to Berman, West and Cava (1994), the formal strategy has the advantage over the informal strategy of being more recognizable and explainable to employees. In the same vein, Pajo and MCGhee (2003: 62) assert:

“relying solely on informal mechanisms has inherent dangers. Without formal systems to safeguard ethical behaviour and clear standards against which employees can benchmark their actions, the same informal mechanisms that can contribute to a positive ethical climate may instead foster laxity and unethical decision making”.

Others emphasize that formalization contributes to effectiveness of integrity policies (Van den Heuvel et al. 2010) and relying on employees’ good intentions is insufficient (Conijn 2009).

Managing and Institutionalizing Integrity: Four Key Issues

Once an integrity policy is formulated challenges of implementation come into play. Karssing and Hoekstra (2004) examine four key implementation issues (see also Hoekstra 2015).

First, there is fragmentation. Integrity policies within public organizations are often fragmented because various sections or departments are responsible for different aspects or instruments. In addition, policies are developed in isolation, sometimes in response to an egregious breach or some crisis, and often the key players who fulfil a role in relation to the integrity policy may not sufficiently communicate with each other. In the UK for instance, Heywood states: “key reforms to the integrity management framework have been piecemeal and reactive. They often have been prompted by specific scandals or events, rather than developed in a comprehensive and integrated manner” (2012, 478).

Second, there is implementation deficiency. Implementing an integrity program is not seen as core business, and different in style and process to implementing for example, an immunization program, or a transport program. In well performing countries, integrity policies have lacked sufficient recognition or direct follow up (Van den Heuvel and Huberts 2003; Transparency International 2012).

Third is finding an appropriate balance between the strategies mentioned above as strategies come into and out of favour over time (Hoekstra and Kaptein 2014). Within developed countries, a related problem is that measures such as risk analysis and the enforcement aspects have become underexposed due to overemphasis on aspects of Integrity 2.0. Fourth there are signals that austerity measures introduced by governments across the globe as a response to financial crises, result in more integrity risks, while time and resources devoted to integrity management are decreasing (Hoekstra, Hoogeveen and Zweegers 2011; Transparency International 2012). Clearly, integrity is a “temporal sensitive subject” (Hoekstra 2015). Risks may increase because budget cuts and reorganizations may give rise to feelings of anxiety, vindictiveness, job insecurity and resentment.

Obstacles to Institutionalization

Institutionalization of integrity strategies is a problematic blind spot within many government organizations in developed countries. Devolution of responsibility offers public bodies much freedom in deciding how to organize and establish their integrity policies. Even though public bodies are obliged to establish such policies in a written document, they are also permitted to record this in all kinds of loose circulars, web postings and papers (Hoekstra 2015). This is not conducive to coherence, as theory might suggest.

In addition, integrity policies are often incident-driven and symbolic with more attention to new measures than to implementation and institutionalization of existing policies (Demmke and Moilanen 2012). Also, explicit and visible commitment of management to integrity and ethics is risky if expectations are disappointing (Kaptein and Wempe 2002). Another potential risk is that institutionalization through the appointment of a specific officer may result in others within the organization feeling less responsibility. (Maesschalck 2005). Institutionalization of integrity policies could be construed by some as additional bureaucracy, an administrative burden and red tape that is undesirable and unnecessary, and for which the capacity and resources are often lacking (Van den Heuvel and Huberts 2003; Weaver, Trevino, and Cochran 1999).

Now, having reviewed key approaches to public sector integrity management and identified some current issues and shortcomings, we turn to empirical material on corruption risk assessment awareness, and mitigation strategies and their institutionalization in Victorian public bodies. We then discuss how these local findings mirror some of the broader findings described above, and what that means for suggested improvements.

Method and Sample

The integrity survey was part of a larger project on corruption in Victoria. Following a process of consultation with a range of agencies, the Victorian Independent Broad-Based Anti-Corruption Commission (IBAC) and the researchers selected 54 public

bodies to receive the survey. The public bodies selected ranged from major Departments to small specialised regulatory and statutory authorities.

The letter accompanying the survey asked that the survey be returned to a secure email address at the Australian National University and outlined:

- The background to the commissioning of the Review;
- How the results were to be used;
- Confidentiality of certain information;
- The definition of corruption;
- Areas of potential risk for corruption; and
- Examples of corruption.

Public bodies were advised that their responses to the survey would not be identified in any way within the body of the report. They were also advised that the survey was not designed to elicit responses relating to the identification of individual corrupt activities and that the survey did not relate to any IBAC investigation. Public bodies were guaranteed that all responses would be held by the ANU in the strictest confidence with no individual responses able to be identified. No information identifying any agency has been communicated to IBAC. Surveys were returned to the ANU in September and October 2013. Valid responses were received from 36 public bodies, and many agencies supplied additional documents describing their integrity policies and operational processes.

The Integrity Systems Review Survey sought to elicit, wherever possible, factual and documentary responses from the sample of public bodies of their experiences of anti-corruption measures. The areas covered by the twelve questions in the survey are displayed in Table 1

Table 1: Types of activities and practices included in the survey questions	
1.	Risk management and risk assessment with respect to corruption, and seeking an overview of relevant processes and outcomes;
2.	Current high, medium and low risk areas for corruption as identified by the risk assessment process;
3.	Description of reporting systems to senior management;

4. Reporting and management of protected disclosures (including welfare management);
5. Oversight by senior management of anti-corruption measures , and whether means of ensuring oversight measures are effective;
6. Whether the public body has a specific employee, team or committee with responsibilities for anti-corruption measures;
7. Specific controls or operating procedures to help deter and prevent corrupt conduct;
8. Education and information provided to the public so as to minimise opportunities for corruption;
9. Internal reporting systems to enable employees to report suspected corruption;
10. External reporting systems to law enforcement authorities (police) or integrity bodies (IBAC);
11. Main ways in which suspected conduct was identified within the public body over the last 3 years;
12. Internal training and education.

Responses were received from agencies right across the size and responsibility spectrum, and they were grouped into four clusters (see Table 2). Information was also sought on staffing, recruitment and budget.

Table 2: Participating agencies classified in four tiers

TIER	GUIDELINES TO CLASSIFICATION	NUMBER
Tier 1	<50 staff, budget less than \$10m in most cases less than \$5m	6
Tier 2	Small, \$10-100 million budget, approx 50-300 staff	13
Tier 3	Several hundred employees; budget \$100-700 million	10
Tier 4	Department level - thousands of employees; budgets \$700 million +; all but one billion dollar budgets	7

N = 36. Note that these guidelines are approximate only and there are several agencies with budget/staffing levels that didn't fit cleanly into these levels. Their classification was generally determined on the basis of budget.

Findings

It is important to note that as this was a qualitative survey it is not feasible to assign numbers and percentages to all responses: they were analysed using qualitative rather than quantitative methods. This paper reports only on the results related to questions 1 and 2, and 7, 8, and 12. For our discussion we use the general understanding of corruption outlined in the introduction above.

The key findings are listed here, and the following two sections elaborate.

- Agencies were able to identify potential risks, and sometimes had formal mechanisms for doing so
- There were very few investigations of corrupt behaviour
- They were aware of their obligations regarding protected disclosures
- Overall they were aware of where they stood in relation to fraud, but less so in relation to corruption.
- Most had policies such as gift disclosure, IT security and procurement policies. Many mentioned their or VPS codes of conduct
- Training was reported by most agencies. Four had no training, while 11 provided training only on induction. Just over half had regular training or people were directed to information posted on the web.
- 11 of the 36 provided (corruption prevention) educational resources to the general public or stakeholders

Corruption Risk Assessment and Perception

This section reports the key findings related to questions in the survey which explore the types of risks identified by the organizations surveyed, the existence of various risk assessment procedures and practices, and the extent to which they identify risks related to corruption, and some information on reports and investigation.

33 of the 36 public bodies provided information on potential risks they perceived or had identified facing their agency. The public bodies variously reported between one and fourteen perceived risks, and overall 202 separate risks were identified. Several public bodies reported risks that were unique to their operational context. These include risks relating to the delivery of a specialist service – a risk that no other agency would share. The most commonly reported risks and their most common classifications were, in order of importance:

- procurement (medium or high risk);
- breach of IT or information security (medium or high risk);
- financial misconduct by employees (across all levels of risk);
- misconduct relating to recruitment or human resources (low or medium risk); and
- theft or misuse of resources by employees (low risk)

Overwhelmingly, the identified risks were related to financial management or procurement, and to the integrity of the agencies' information technology capacity and resources, but not to defined corruption risks, though corruption risk is clearly evident in procurement practice.

Procurement issues were variously described as: collusion with third parties, corrupt procurement, collusion in procurement, inappropriate procurement or contract management, manipulating tendering process, procurement and contract management, tendering, chain of authority, buying goods or services, procurement- tendering or quotes, ineffective contract management processes. **Information security breaches**, included website security, information security, information management, internal threat to IT systems, issues with electronic management, IT security, security-physical and information, network security, use of data by externals, IT systems, and breach of information technology and communications security. **Information misuse**, included: commercial confidentiality breach, misuse or wrongful disclosure of information, misuse of information (several), unauthorised disclosures, misuse of confidential information, disclosing confidential information, improper disclosure of personal information, and inappropriate use of confidential information.

28 out of the 36 agencies reported having risk assessment processes. These processes were mainly directed to financial, audit or fraud risks and related controls. Only a few public bodies reported having stand-alone, specific anti-corruption risk assessment processes, although a slightly larger number of agencies reported having mixed assessment systems which dealt with corruption measures, but also with other matters such as misconduct and fraud. What do agencies look for in the risk assessment process?

A typical response came from Agency 34:

The internal auditor appraises [AGENCY's] control and risk management practices and may review control and risk management systems and operations to assess the extent to which these are effective, efficient and economical in assisting [AGENCY] to achieve its objectives;

– *Assess the relevance, reliability, timeliness and adequacy of management data;*

- *Appraise expenditure with regard to "value for money";*
- *Ascertain the extent of compliance with established policies, plans and procedures; and*
- *Draw attention to any failure to take remedial action.*

Fewer than half of the agencies (17 of 36) reported one or more instances or investigations of corrupt conduct within their agency in the past three years; and of these, 11 reported that they only one or two instances or investigations of corrupt conduct. Two agencies, however reported more than 30 investigations or instances of corrupt conduct. Two agencies indicated they did not keep statistics on corrupt conduct.

The conduct that was reported or investigated included: financial impropriety; misuse of property and equipment; inappropriate behaviour; thefts; timesheet irregularities; inappropriate used of IT; and unauthorised release of information.

The most common way for these investigations to be commenced was following complaints from members of the public. The next most common ways for investigations to be commenced were complaints from managers and complaints from colleagues. Two agencies indicated that investigations had been commenced after suppliers reported irregularities in staff conduct or ordering procedures. Most agencies reported that they were aware of their obligations under the Protected Disclosure Act.

A sizeable number of agencies reported having a specific officer or officers with Protected Disclosure Act responsibilities (commonly described as a Protected Disclosure Coordinator and a Protected Disclosure Manager). While most responses referred to the role of senior management in terms of oversight of misconduct issues, there was little evidence of explicit involvement of senior management in corruption measures. Most had mechanisms for employees to lodge complaints or reports. These 'referral' bodies or officers included:

- Audit committees, or audit and risk management committees
- Fraud control officers
- Fraud prevention officers
- Integrity managers
- Compliance and risk managers.

The purpose of risk management has been described by the Department of Treasury and Finance in the Victorian Government Risk Management Framework March 2011 as

“Risk management is the combination of organisational systems, processes, procedures and culture that facilitate the identification, assessment, evaluation and treatment of risk in order to protect the organisation and assist in the successful pursuit of its strategies and performance objectives”.

The understanding of fraud and corruption is fairly uniform, as outlined by Agency 20:

Agency #20

“[AGENCY] defines fraud as “dishonestly obtaining a benefit by deception or other means” which includes bribery, corruption or abuse of office. Since [AGENCY] views corruption as a subset of fraud, AGENCY’s detection, prevention and response to corruption risk is governed by [AGENCY’s] Fraud Control Framework and assessed via Fraud Risk Assessments. All references to fraud risk in our responses below include corruption risk.”

One could not fault these agencies in their willingness to identify inappropriate behaviour and ensure it is detected and possibly prevented. When identified, corruption risks were seen as risks to the reputation the agency, rather than being seen as risks to the agency mandate or underlying purpose itself. Clearly, there is a danger of missing the woods for the trees in the case of an agency which has enormous potential for corruption risk listing their high risks as the routine agency risks - IT misuse, procurement irregularities, manipulation of staff entitlements etc.

Mitigation

In response to the survey questions on mitigation policies and strategies, most of the public bodies reported having developed a range of controls, programs and policies (e.g. gift disclosure, benefits and hospitality policies, conflict of interest policies), but there was little evidence that these measures were specifically linked or related to corruption prevention as such. Most of the measures were related to fraud and financial matters, though the generic nature of these, it could be argued, cover corruption. Mostly these are based at least in part on the broad guidelines in the VPS Codes of Conduct for public

sector employees, which refer in general terms to standards, conflicts of interest, gifts and benefits etc. These following types of processes are frequently in place:

- gifts, benefits and hospitality policy, including a register of hospitality either offered or accepted;
- financial and human resources delegations frequently reviewed;
- detailed records of private interest declarations maintained;
- publications, usually on the agency intranet, of policies as to ethical behaviour, secondary employment;
- procurement policies

Some had specific codes of practice or standing directions relating to segregation of incompatible duties, user access levels, identity checking for new employees, fleet policies, travel policies, purchasing card policies, and so forth (again, mostly these were fraud related rather than corruption related)

Agency 34 for example indicated their high risks which include

- Improper disclosure of personal information;
- Non-compliance with new Payment Card Industry Data Security Standards (i.e.: information security)
- Identity fraud

This agency rated breach of IT and communications security as a medium risk. The list of controls they reported was much more comprehensive than that reported by most agencies:

- An extensive range of financial controls and policies;
- Controls over procurement and
- Controls over the recruitment processes.

These controls clearly implement the Financial Management Act and the associated reporting requirements but they are out of sync with the corruption risks that the agency faces. The agency is in the infrastructure cluster, and the risks identified are

internal risks to the management of the agency, not to the harms that could be caused to the community if corrupt practices were in place.

Several public bodies reported having (or needing to develop) specialised programs, systems relevant to eliminating risks of particular forms of misconduct. Examples in these categories include:

- Specific information security policies based on ISO 27001 ISMS (Information Security Management Systems) Security Standard;
- Specific policies designed to prevent 'kickbacks' in relation to the appointment of external contractors or external specialist personnel;
- Deal capture' in relation to large scale commercial, financial or procurement operations;
- Statutory provisions relating to 'fit and proper person' declarations or undesirable associations.

Most of these reporting systems or complaints mechanisms are related only to suspected fraud rather than suspected corruption. The bodies, officers or committees (mainly audit committees) to which such reports were made were not tasked to deal specifically with corruption, but with fraud or financially related matters.

Most bodies under study were aware of obligations of the public body to refer protected disclosure matters to IBAC, and a range of responses indicated an awareness of the need to report suspected criminal activity to the police. Some also referred to the Ombudsman.

Training and education

Relatively few public bodies reported having specific education or training programs for staff in relation to an understanding of what constitutes corruption. Four patterns of responses were discernible.

- Training on induction only (15 agencies);

- wide range of training (mostly fraud awareness/ prevention) training (11 agencies)
- training on protected disclosures/ directing staff to web updates (6 agencies)
- no training (4 agencies)

Most agencies referred simply to induction training programs relating to the VPS Codes of Conduct for public sector employees. The VPS Codes contain very little specific information about corruption. In a few cases it appears that new officers were simply provided with a copy of the VPS Code of Conduct, or had their attention drawn to the existence of material on the public body intranet or website. A few agencies indicated that they were developing fraud and corruption awareness training modules, and a number of other responses did however refer to training for the Protected Disclosure Act requirements for public bodies.

We should note that these responses are not mutually exclusive. Some have mixed modes, others send staff to training on a regular or irregular basis, some rely on information that is circulated or posted on the internet.

For instance, agency 34, which reports high risks, also has a strong commitment to staff training. In response to the question on training it listed that it provided the following:

- Staff induction Program
- Compulsory e-learning Programs which are complementary to understanding the operation of the code of conduct (must be repeated every second year)
- Ethics and Values workshops for all Executives, delivered in conjunction with the St James Ethics Centre.
- Training in procurement requirements to ensure that policies and procedures are followed.

The survey responses generate the following overview of the types of training programs and practices reported by the agencies.

- The Department has introduced online training programs, introducing staff to the VPS Code of Conduct and statutory risk.
- Information is provided to staff through several webpages and an online fraud training module.
- Staff has access to an online fraud and corruption module; and the agency reports running presentations and training on fraud and corruption.
- Staff received management training, induction training and workplace obligations training. Financial delegates are given particular training.

- Induction only
- Annual online training for all staff; induction training
- Induction, business essentials training and regular emails about gifts and hospitality.
- All employees sign the code of conduct when they commence with the agency At induction, staff are provided with a code of conduct
- Induction program, mandatory corruption training (agency 10)
- Mandatory fraud training; induction program and training in protected disclosures.
- Information is made available on the website re: reporting. The Financial Code of Conduct is updated annually, and staff are emailed each year with a reminder to familiarise themselves with the code
- workshops are provided on fraud and corruption risks; gifts and hospitality and information security
- Staff have received copies of protected disclosure guidelines
- Training is delivered by an external provider
- Broad approach
 - Induction for all employees
 - Annual Code of Conduct refresher training
 - Biennial Fraud and Corruption Control refresher training
 - Annual Information Security refresher training
- Role specific training

However, of the 36 respondents only 11 agencies reported providing any kind of educational material or activities to the public regarding anti-corruption practices.

These agencies listed practices such as:

- Providing instructions to persons or companies submitting tenders of appropriate ways to interact with agency staff, as well as information about transparency and other applicable standards;
- Providing information in the annual report and
- Providing information on how to make complaints.

In most cases, when information was provided to the public over and above the VPS Code of Conduct, its purpose was to avoid financial misconduct or to limit public collusion resulting in financial loss for the agency. Some of the agencies with tendering standards postulated the absence of collusion and fraud in the tendering process as evidence of the effectiveness of the information they were providing. Otherwise, no agencies reported mechanisms for assessing the effectiveness of the public information or education they were providing. Education for the public is expensive, but could have significant pay-offs. While certain risks will be agency specific, there is a great deal of

scope for a broader, but still targeted approach in education initiatives for public consumption. This would be part of an overall commitment to integrity. There would inevitably be an increase in reports of corruption by the general public, and this could well reflect better awareness rather than an increase in corrupt activity. This phenomenon is also known as the “integrity paradox”, see Huberts (2014).

Discussion and Implications

Our qualitative findings clearly show that corruption is generally not on the radar of the responding agencies. There is considerable awareness of fraud and of misconduct, but corruption itself is not a focus. There are several potential explanations for this. First, there may be virtually no corruption in these agencies; second, what is suspected or observed is judged to be of very little consequence; third, corruption exists, but is carefully hidden and covered up; fourth, it exists but people are afraid to disclose or report it. In addition, there had not been a standalone anti-corruption authority in Victoria until February 2013, when the Independent Broad-based Anti-corruption Commission (IBAC) became fully operational, and thus there was no “problem owning agency”. Indeed, it was IBAC that commissioned this study to establish baseline data on agency awareness of corruption risks, and to draw attention to the new statutory requirements for corruption risks and anti-corruption measures.

However, what was evident from the survey responses was that the agencies by and large saw risks to their agency from poor behaviour, but did not see these as affecting the service they delivered to the public, or the public’s perception of the integrity of the government process. Clearly, corruption risks are detached from the public missions and public values as well as the public service ethos public service ethos they are supposed to embody and pursue (Bozeman 2007; Rayner et al. 2011).

This is a crucial point. Some agencies were more concerned about their internal processes than they were about the quality and integrity of the service they were delivering to the community. The mere fact they do not see these issues as interconnected highlights the need for more awareness training. For example, one agency that is involved in regulatory behaviour and the issuing of licences that are very

valuable to licence holders, reported it saw risks in behaviour such as bias or favouritism in recruitment, conflict of interest in secondary employment, poor procurement practices, inappropriate access to IT systems, staff acting outside delegated authority, and so forth. However, there was no sense of the harms done to the community if the licensing process was corrupted. The focus in this agency and others was on internal processes and ethical compliance rather than on the relationship with the public and the confidence that the public might have in the agency and the processes it implements.

Overall, while the study of Victorian agencies reveals the necessity for a much sharper focus on corruption prevention, there was nevertheless substantial evidence of agencies across the Victorian public sector maintaining effective compliance with fraud and finance related requirements. This state of integrity and preparedness for fraud prevention should serve as a platform for the relevant agencies (central agencies, individual agencies or parts thereof) to develop additional, complementary strategies directed specifically to corruption detection, prevention and deterrence.

Turning to the future challenges facing VPS agencies, and for the purposes of the themes discussed in this paper, the three most important findings from the survey of VPS Integrity Frameworks are:

1. That senior management of many agencies was not actively or directly engaged in the tasks of corruption prevention.
2. That very few agencies had developed specific programs or strategies directed to corruption prevention.
3. That very few agencies had developed specific anti-corruption training programs for employees.

This paper opened with a discussion of compliance based and values based approaches. Like the survey results these are not black and white approaches. They are not mutually exclusive, and elements can be brought into play as required. In these circumstances, and as the earlier discussion demonstrates, the most beneficial approach for agencies to adopt would be to embrace those anti-corruption strategies which combine the best

elements of the compliance based approach as well as the values based approach. Such strategies should be carefully implemented and institutionalized, as evidence suggests these are areas of attention in various countries. Accordingly, those agencies lacking in any or all of the above identified areas should consider, at a minimum , the adoption of 3 elements or pillars that incorporate both approaches, to establish an effective anti-corruption management system. Those three elements or pillars are :

- Effective, committed and responsible agency leadership (or “Tone at the Top “), which should be focused squarely on agency preparedness for corruption prevention and specifically directed to the management of corruption risks (broadly “values” based) ;
- Specific corruption prevention strategies, which should consolidate and complement existing integrity mechanisms, such as anti-fraud practices and procedures (broadly “compliance” based);
- Comprehensive and targeted training programs (with ethical and practical components) delivered effectively to both employees and to the public (combining both the “values” based approach and the “compliance “based approach).

Conclusion

The corruption landscape is difficult to draw but it is clear that Victoria does not have a corruption crisis. Corruption is not rampant, and is not a feature of everyday government transactions. Perusal of the reports of anti-corruption agencies across Australia will reveal cases of procurement irregularities, over-ordering, kickbacks from suppliers, poor quality materials being supplied, poor controls of processes etc.; certification of trade work as compliant when it is not (inspector receives a kickback) or extortion by inspector who will not authorise work as compliant unless he receives money; irregularities in the issuing of licences and qualifications; irregularities in town planning, zoning, and construction approvals; irregularities in outsourcing of government functions; irregularities in the funding of non-government organisations; lobbying of decision makers; and even MPs taking unauthorised payments/ bribes (for example, Gordon Nuttall in Queensland). It would be inconceivable to suggest that none of the above ever exist in Victoria.

However, as effective deterrent and prevention mechanisms are progressively developed throughout the VPS, it would be expected that over time, presently unsuspected or unpredictable corruption opportunities and activities will be detected and forestalled, particularly if the aforementioned pillars are actualized.

Existing risk perceptions and strategies tended to focus almost exclusively on mandated systems related to fraud and financial performance management. A key observation that came through the survey responses was that agencies were very concerned about their processes and the damage that could be done to the agency if corruption were present or discovered. They seemed more concerned about this than they were about the damage that could be done to the community. Perhaps, like corruption, this last point was just not on their radar.

This paper started with outlining two different contrasting approaches to organisational integrity management: the *compliance-based* and the *values-based* approach.

Proponents for these two concepts do not argue that they are mutually exclusive in terms of practical implementation. Agencies which rely solely on one or other of the approaches will risk incurring the sorts of deleterious effects detailed above, regardless of which path they choose. The necessary corollary is that the preferable approach is to adopt and institutionalize those practices which combine the best elements of both approaches, and which are calculated to avoid the pitfalls that each presents.

On the one hand, if there are little or no effective compliance elements built into an agency integrity management system, this may result in employees having little or no knowledge of practical integrity requirements, which might be derived from specific legislation, codes of professional conduct or practice or other applicable laws. This will almost certainly result in corruption risks not being identified or being overlooked or ignored. Appropriate compliance regimes and requirements may also be designed and calibrated to identify specific corruption risks within agencies. Equally, as is clear from the literature which has been reviewed above, no compliance regime will be worth its salt unless there is unequivocal and unstinting direction and support from senior management directed to the goal of a corruption free and ethical agency, emphasizing and communicating more fundamental agency values and goals. Only if elements from both Integrity 1.0 and 2.0 are effectively implemented and institutionalized, Integrity

3.0 may come in sight. Our data corroborates once more that various roadblocks mark the path to reach this end stage, even in developed countries.

References

- Berman, E., J. West and A. Cava. 1994, Ethics management in municipal governments and large firms, *Administration & Society*, Vol. 26 No. 2, pp. 185-203.
- Bowman, J.S. 1990, Ethics in government: A national survey of public administrators, *Public Administration Review*, May/June, pp. 345-353.
- Bowman, J.S., and Williams, R.L. (1997). Ethics in government. From a winter of despair to a spring of hope. *Public Administration Review* 57 (6): 517-526.
- Bowman, J.S., and Knox, C.C. (2008). Ethics in Government: No Matter How Long and Dark the Night. *Public Administration Review* 68 (4): pp. 625-637.
- Bozeman, B. (2007). *Public values and public interest: Counterbalancing economic individualism*. Washington, D.C.: Georgetown University Press.
- Brenner, S.N. 1992, Ethics programs and their dimensions, *Journal of Business Ethics*, nr. 11, pp. 391-399.
- Conijn, F. 2009, Henk van Luijk, bedrijfsethicus; Ik doe graag een beroep op het geweten van mensen, maar dat schiet helaas niet op, *Het Financiële Dagblad*, 3 oktober 2009.
- Cooper, T. 2006. *The responsible administrator: An approach to ethics for the administrative role*, Fifth edition. San Francisco: Jossey-Bass.
- Cummings, T.G. and C.G. Worley. 2001, *Organizational development & change* (7th ed.), Cincinnati: South-Western Thompson Learning.
- Demmke, C. and T. Moilanen. 2012, *Effectiveness of ethics and good governance in central administration of EU-27: Evaluating reform outcomes in the context of the financial crisis*. Frankfurt: Peter Lang 2012.
- Graycar, A. 2014, Awareness of Corruption in the Community and Public Service: A Victorian Study. *Australian Journal of Public Administration* 73 (2): 271-281.
- Graycar, A, T, Prenzler. 2013, *Understanding and Preventing Corruption*. New York and Basingstoke, Palgrave Macmillan
- Heineman, B.W. 2007, Avoiding integrity landmines, *Harvard Business Review*. pp. 1-9.
- Heres, L. 2014. *One Style Fits All? A Study on the Contents, Effects, and Origins of Follower Expectations of Ethical Leadership*. Amsterdam: VU University.
- Heywood, P.M. 2012, Integrity management and the public service ethos in the UK: patchwork quilt or threadbare blanket? *International Review of Administrative Sciences* 78(3), pp. 474-493.
- Hoekstra, A. 2015, Institutionalizing Integrity Management: Challenges and Solutions in Times of Financial Crises and Austerity Measures, In: Lawton, A., Z. Van der Wal & L.W.J.C. Huberts (Eds.) *Ethics in Public Policy and Management. A Global Research Companion*. London: Routledge.
- Hoekstra, A., Y. Hoogeveen and M. Zweegers. 2012, *Invloed van de bezuinigingen op integriteit(sbeleid): Een verkennend onderzoek binnen de (semi-)publieke sector*. The Hague: BIOS.
- Hoekstra, A. and M. Kaptein. 2013. The Institutionalization of Integrity in Local Government. *Public Integrity*. pp. 5-27.

- Hoekstra, A. and M. Kaptein. 2014, Understanding integrity policy formation processes: A case study in the Netherlands of the conditions for change. *Public Integrity*. 16 (3): 243-263.
- Hoekstra, A., J. Talsma and M. Kaptein. 2014, *Inter-organisational Cooperation as Strategy for Managing Integrity? An Exploration and Categorization of Integrity Partnerships* Paper presented at EGPA Conference, 10-12 September 2014, Speyer, Germany
- Hosmer, L.T. 1987, The institutionalisation of unethical behavior. *Journal of Business Ethics*. no. 6, pp. 439-447.
- Kaptein, M. and J. Wempe. 2002. *The balanced company: A corporate integrity theory*. Oxford University Press.
- Karssing, E.D. and A. Hoekstra. 2004, Integriteitsbeleid als evenwichtskunst, *Bestuurswetenschappen*, nr. 3, pp. 167- 192.
- Lawton, A., J. Rayner and K. Lasthuizen. 2013, *Ethics and management in Public Sector*. Oxon: Routledge.
- Maesschalck, J. 2004. Approaches to Ethics Management in the Public Sector. A proposed Extension of the Compliance-Integrity Continuum. *Public Integrity* 7 (1): 20-41.
- Maesschalck, J. 2005. *Een ambtelijk integriteitsbeleid in de Vlaamse overheid*. Rapport D/2005/10106/002, Steunpunt beleidsrelevant onderzoek bestuurlijke organisatie Vlaanderen.
- Menzel, D.C. 2005. Research on Ethics and Integrity in Governance. A Review and Assessment. *Public Integrity* 7 (2): 147-168.
- Menzel, D.C. 2012. 2nd Ed. *Ethics management for public administrators: Building organizations of integrity*. New York, M.E. Sharpe.
- Murphy, P.E. 1988. *Implementing Business ethics*, *Journal of Business Ethics* 7: 907-915.
- National Integrity Office. 2012, *Monitor Integriteit Openbaar Bestuur. Integriteitsbeleid en –beleving*. The Hague: BIOS
- Paine, L.S. 1994, Managing for organisational integrity, *Harvard Business Review*, March-April, pp. 106-117.
- Pajo, K. and P. McGhee. 2003. The institutionalization of business ethics: Are New Zealand organizations doing enough? *Journal of the Australian and New Zealand Academy of Management*, 2003, pp. 52-65.
- Rayner, J., Williams, H.M., Lawton, A., & Allinson, C.W. (2011). Public Service Ethos: Developing a Generic Measure, *Journal of Public Administration Research and Theory*, 21, 1, 27-51.
- Robertson, D.C. 1991, Corporate ethics programs: The impact of firm size in: B. Harvey, H.J.L. Van Luijk en G. Corbetta (eds), *Market, morality and company size*. Kluwer Academic Publishers in cooperation with The European Business Ethics Network.
- Sims, R.R. 2003, *Ethics and corporate responsibility. Why giants fall*. Westport, CT: Greenwood.
- Sims, R.R. and J. Brinkmann. 2003, Enron Ethics (Or: Culture Matters more than Codes). *Journal of Business Ethics* 45: 243–256.

- Singhapakdi, A. and S.J. Vitell. 2007, Institutionalization of Ethics and its Consequences: A Survey of Marketing Professionals. *Journal of the Academy of Marketing Science* 35: 284-294.
- Petrie, M. 2014. Building and Maintaining Trust in Public Institutions: Is this Possible? In: *Future-Proofing the State. Managing Risks, Responding to Crises and Building Resilience*. Canberra: ANU Press.
- Petry E.S., and F. Tietz. 1992, Can ethics officers improve office ethics? *Business And Society Review*, pp. 21-25.
- Tenbrunsel, A.E, K. Smith-Crowe and E.E. Umphress, Building houses on rocks: The role of the ethical infrastructure in organizations, *Social Justice Research*, vol. 16 (3), p. 285-307.
- Transparency International 2010. *Corruption Perceptions Index 2010*. Berlin: T.I.
- Transparency International. 2012. *National Integrity System Assessment Netherlands*. The Hague; T.I. Netherlands.
- Treviño, L. and G. Weaver. 2003. *Managing ethics in business organizations*, Stanford: Stanford University Press.
- Treviño, L. and K.A. Nelson. 2004. *Managing business ethics: Straight talk about how to do it right*. 3rd ed. New York: John Wiley & Sons, Inc.
- Van Blijswijk, J.A.M., R.C.J. Van Breukelen, A.L. Franklin, J.C.N. Raadschelders and P. Slump. 2004. Beyond ethical codes: The management of integrity in the Netherlands Tax and customs Administration, *Public Administration Review* 64 (6).
- Van den Heuvel, J.H.J. and L.W.J.C. Huberts. 2003. *Integriteitsbeleid van gemeenten*. Utrecht: Lemma.
- Van den Heuvel, J.H.J., L.W.J.C. Huberts, Z. Van der Wal, and K. Steenbergen 2010. *Integriteit van het lokaal bestuur: Raadsgriffiers en gemeentesecretarissen over integriteit*. Den Haag: Boom Lemma Uitgevers.
- Vitell, S.J. and A. Singhapakdi. 2008. The role of ethics institutionalization in influencing organizational commitment, job satisfaction and esprit de corps, *Journal of Business Ethics* nr. 81, p. 343-353.
- Weaver, G.R., L. Treviño and P.L. Cochran. 1999. Corporate ethics programs as control systems: influences of executive commitment and environmental factors. *Academy of Management Journal* 42, 1: 41-57.