

Whistleblower Policy Supports Investigation into Procurement Corruption

Background

Auckland Council Corruption Between Two Long-term Associates

An external supplier paid a bribe to an Auckland Council employee to secure a \$140,000 USB supply contract.

The Council employee was a procurement specialist who managed stationery contracts for the Council. The supplier was the director of a printing and office supply company, and a long-term associate of the Council employee. The Council employee failed to declare his conflict of interest with the supplier.

Corruption of the Procurement Process

The Council employee engaged in numerous corrupt behaviours which enabled the supplier to secure the contract. These included:

- ▶ informing the supplier of the Council's intention to purchase a large amount of USBs
- ▶ assisting the supplier in the procurement process by searching and finding cheap USB rates for him internationally
- ▶ instructing the supplier to purchase the USBs from an international supplier and sell them onto the Council for a profit
- ▶ intentionally manipulating procurement documentation to make it appear as if the supplier had provided the lowest rate for the USBs.

In return for securing the contract, the supplier paid the official a \$7,500 monetary bribe.

A Whistleblower Prompted the Organisation to Contact the SFO

An internal employee became suspicious after they were contacted by the supplier asking about the process for securing future contracts. The employee consulted the whistleblower policy and informed their direct manager. The matter was escalated to the internal Auckland Council Integrity Team who, upon further investigation, reported the matter to the Serious Fraud Office.

The public official was charged with corruption offences and, following a guilty plea, received 10 months home detention.

Fraud Prevention Observations

<p>Impacts</p>	<ul style="list-style-type: none"> ▶ The Council paid \$27,000 more for goods which had been offered at a lower rate by another supplier. ▶ The Council diverted employee hours and resources to investigating the corruption. ▶ Management indicated that the wider organisation was affected by the offending with employees reporting that they felt undermined by the case. ▶ The supplier gained an unfair competitive advantage. The supplier's firm made a profit of over \$57,000 from the contract.
<p>Fraudster Personas</p>	<ul style="list-style-type: none"> ▶ The Corruptor - The council employee misused their position of power to benefit themselves through bribes. ▶ The Deceiver – By leaving lower quotes out of procurement documentation, the council employee made it appear that the supplier was offering the best deal, and deceived the Council.
<p>Red Flags</p>	<ul style="list-style-type: none"> ▶ Employee acted outside their scope of duties. His involvement in establishing a new Council contract for the USBs was outside his normal course of duties. His role was to maintain the Council's existing supplier relationships. ▶ Supplier contacted Council employees directly to facilitate business. ▶ Contract awarded to supplier outside of an approved list of suppliers.
<p>Effective Countermeasures</p>	<ul style="list-style-type: none"> ▶ The case highlights that effective countermeasures such as a whistle blower policy can empower individuals to speak up when they suspect fraud or corruption.

Case Study

	<ul style="list-style-type: none">▶ Other effective countermeasures include quality assurance checks to ensure processes are being followed correctly, and audits of contracting processes.
Mitigations and Responses	<ul style="list-style-type: none">▶ Strong clear messaging was communicated by senior leadership as a deterrent for this type of behaviour. Offenders would be held to account for actions that cause considerable reputational and financial harm to Auckland Council.▶ Procurement processes use automated systems to support an efficient, consistent and paperless system. Using an automated process prompts individuals to follow a process and creates alerts when actions fall outside of the predetermined process.▶ Contracts signed by the Council are made public to support a transparent process. The Council will not sign contracts that keep its spending confidential. Instead, it regularly publishes on the Council website the names of all suppliers receiving more than \$50,000 in ratepayers' funds and describes the goods or services provided.▶ Independent auditors are used for all high-risk and high-value procurement.
Link to sources	SFO Media Release
Fraud Tags	Public sector, Local Government, Bribery and Corruption, Technology Services and Solutions, Service Delivery and Operations.