

SCENARIO 2

THEME 2: LEADERSHIP AND ORGANISATIONAL CULTURE

Overview

Corruption in procurement processes can occur in any organisation. Its presence and extent depend largely on an organisation's procurement framework and the strength of its ethical supports, for example appropriate policies, procedures and other support mechanisms. Organisations can mitigate the risk of corrupt conduct being embedded, by enforcing sound policies and controls with appropriate checks and balances.

This resource is based on the conduct of a manager in a small public sector agency. It examines factors that enabled criminal conduct to occur and then continue, despite concerns being raised on numerous occasions. In this case, over a four-year period nearly \$1 million was stolen from the agency.

This resource is designed to support a group discussion about how procurement processes can be exploited and what steps can be introduced to improve practices.

It is divided into two sections:

Section one describes one individual's ongoing corrupt conduct at an agency, which included serious criminal offending through fictitious invoicing. It demonstrates the cumulative effect of policy breaches, obvious red flags being ignored and insufficient action on the part of senior management in response to these concerns being raised.

Section two provides a range of questions to prompt group discussion on **leadership and organisational culture**, as well as background information to support the group discussion.

The key learning goal from using this resource is to better understand the importance of leadership and organisational culture in reducing the risk of corrupt conduct

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The scenario

Sarah is a general manager in a relatively small public sector agency. She was initially employed as a team leader and has been at the agency for five years, over which time she has given gifts to, and done favours for, other staff on numerous occasions. Colleagues describe her as charismatic and she counts many of her workmates as personal friends.

Sarah is regarded as a high performer and has risen through the ranks quickly to become a general manager, reporting directly to the chief executive. Sarah's role as a general manager makes her a member of the senior leadership team where she is well regarded by her SLT colleagues. Sarah has financial delegation authority allowing her to authorise payments up to \$100,000.

The agency has procurement policies and procedures that require the separation of duties (distinct lanes of responsibility within an approval process) and one-up approval (obtaining the signature approval of the line manager). It is also mandatory to have written contracts with all external providers. The induction Sarah received when she started included an explanation of the agency's policies and procedures. In practice these controls are often ignored by approvers and senior people across the agency, with little or no accountability brought to bear for policy breaches.

Within three months of being appointed as a general manager, Sarah registers an entity on the NZ Companies Office website. This entity is effectively a façade. It has no operational substance, assets or employees. Sarah soon starts to create, submit and approve invoices for ambiguously described work, claimed to have been completed by her recently created company. No signed contracts exist for this work and nobody else in the agency is involved in this approval process.

Sarah's non-compliance with policies and the vague nature of the services referred to in the invoices is soon noticed by finance and legal staff. They raise their concerns with other managers. Initially these concerns are dismissed or not acted on. However, with persistence by staff, these concerns are eventually brought to the attention of senior management.

Senior management raise these concerns with Sarah. She pleads ignorance, claiming that she is not aware of the procurement policy, in particular the requirement for contracts to be signed by the Ministry and the supplier before payments can be made. In order to colour management's perceptions of the legitimacy of the complaints, Sarah suggests that they are being driven by improper motives and bias on the part of staff who have complained. Her explanation is accepted and no further action is taken.

Sarah continues her corrupt conduct but changes her modus operandi slightly. She stops submitting invoices in the name of the company at the centre of the concerns, instead creating two more fictitious companies. The two new companies have the same bank account number, the same GST number and the same postal address, but this is not identified by the agency.

Contrary to the agency's procurement policy, Sarah drafts contracts which are multi-year arrangements, with no oversight from the legal and finance teams. She continues to create, submit and approve invoices without seeking the requisite one-up approval and, in doing so, exceeds her \$100,000 financial delegation for approving payments.

Agency staff become aware of Sarah's continued non-compliance with policy and again raise concerns. Sarah again claims staff bias towards her and persuades senior management to close any further investigation of the issue. It is not until John, the agency's chief executive, receives – through informal networks – a warning about Sarah's history of similar concerning behaviour that any action is taken. John starts a full investigation into Sarah's activities. Sarah is ultimately dismissed and charged with criminal offending. During the investigation it is discovered that she was dismissed from a previous role for corrupt conduct.

QUESTIONS FOR GROUP DISCUSSION

How was it possible for Sarah to act independently and contrary to the agency's procurement policy on repeated occasions over a four-year period?

- Sarah was in a senior leadership role, with a high degree of trust being placed in her and a high degree of autonomy in her decision-making.
- Sarah formed close relationships with key people who assisted her in her corrupt behaviour, and she used her seniority to influence more junior staff.
- Sarah gained the trust of the chief executive and was able to justify her actions to him when concerns about her conduct were raised by staff.

In terms of leadership, what could the agency do to prevent this happening again?

- Set the tone from the top and model ethical behaviour. This involves managers at all levels leading by example and acting with integrity.
- Provide regular communications to staff about fraud and corruption risks and vulnerabilities.
- Act promptly when concerns are raised.
- Protect staff who speak up and ensure they are not disadvantaged by raising concerns.
- Positively reinforce ethical behaviour through all people-related policies and processes, for example, recruitment process, performance management process.

In terms of organisational culture, what could the agency do to prevent this from happening again?

- Take a proactive approach to creating an ethical culture by regularly providing training on good procurement practices.
- Recruit people who act with integrity to help build a strong ethical culture in the organisation.
- Create and publicise a range of channels for staff and external people to report potential wrongdoing or inappropriate behaviour, and communicate these clearly.

What other things might the agency consider doing to prevent inappropriate behaviour?

- Develop a robust employment screening policy and processes to support recruitment of properly qualified people with integrity.
- Act promptly when concerns are raised. If staff see inaction from senior management or any outcome when concerns are raised they are less likely to report their concerns.
- Listen to people's concerns objectively, including when they relate to senior staff in the organisation. People who report concerns about wrongdoing are likely to feel stressed, anxious and vulnerable. These feelings are likely to be amplified in situations where the person being reported about occupies a senior or significant role in the organisation and has the power and influence to harm an employee's work status, career or future job prospects.
- Be receptive to receiving incomplete information. Organisations need to be aware that people who report concerns about wrongdoing usually don't know all the facts. Their responsibility is to simply report their concerns. They can't be expected to know all the facts or be able to gauge their relative importance.