



Corruption risks associated with public regulatory authorities

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This is a summary of IBAC's report *Corruption risks associated with public regulatory authorities*.

This report provides an overview of the corruption risks associated with activities undertaken by public regulatory authorities in Victoria. It looks at the causes of these risks, the factors that drive corruption risks in these authorities, and potential prevention, reporting and detection strategies.

This summary is designed to help public regulators identify corruption risks and to further strengthen their prevention and detection strategies to prevent corrupt conduct. The full report is available on IBAC's website.¹

The report was informed by an analysis of IBAC findings from investigations and research, consultations with key regulators, and information from other integrity agencies in Victoria and nationally.

Corruption risks associated with regulatory authorities

The diversity of Victoria's regulatory authorities and the activities they undertake present unique corruption risks. Responsibility for inspections and licensing, combined with the high levels of discretion permitted, and access to sensitive information, provide opportunities for corruption to occur. Corruption risks identified include:

Conflict of interest

Identifying and managing conflicts of interest is an issue across the public sector. Conflicts of interest must be appropriately managed to mitigate corruption risks. Conflict of interest is a particular risk with regulatory authorities where employees work collaboratively with the industries they regulate, and because some regulatory bodies receive revenue from the industries they regulate.

Regulatory authorities' employees based in regional Victoria face heightened corruption risks because there is a greater chance they will know the people or organisations they are regulating.

Bribery

Inspections are an important part of regulators' compliance and investigative functions. The report identifies corruption risks for inspections include the offering or solicitation of bribes or other inducements to pass inspections and 'tipping off' business prior to inspections by regulator employees.

There is also an incentive for industry to offer benefits in return for licences or registrations, or to offer bribes to regulators to speed up the process.

Fraudulently reporting on performance

Fraudulent reporting on performance, such as regulatory employees falsely claiming that inspections have been conducted, has the potential to undermine public confidence in regulatory systems and reduce the overall effectiveness of regulatory regimes.

¹ www.ibac.vic.gov.au/publications-and-resources/article/corruption-risks-associated-with-public-regulatory-authorities

Drivers of corruption risks in regulatory authorities

A number of factors have the potential to drive or increase the risk of corrupt conduct occurring in public regulatory authorities:

Lack of transparency

IBAC found that reporting of regulatory outcomes varied across regulators, particularly the breadth of information being reported back to the regulated entities. The report notes that by providing transparency through public reporting, regulators can help assure the community that they are operating with integrity.

Industry and regulatory capture

With an increased reliance on private industry to deliver what were once public services, there is potential for conflicted relationships. This can lead to 'regulatory capture', where regulators and their employees potentially align their values and actions with that of the industry they are regulating – rather than with the values and legislated purpose of the regulator.

Integrity history of employees

Regulators often require specialised skills and experience to perform work such as inspections and enforcement. It can be difficult to recruit and retain the best employees for these positions as these skills may also be in high demand in the private sector. Such competition could mean that employees with problematic histories of misconduct or corrupt conduct in other agencies are considered for employment in public bodies because they hold the requisite skills.

Targeting by organised crime groups

Many employees of regulatory authorities have high levels of access to sensitive personal and business information, sometimes with low levels of accountability. The cultivation of these employees is an attractive way for organised crime groups to facilitate their criminal activities.

Prevention and detection strategies

There are a number of prevention, detection and risk mitigation strategies being used by some Victorian public regulatory authorities. These good practices could be considered more broadly across the sector.

Corruption prevention strategies include:

- proactive and clear frameworks for the management of conflict of interest
- greater transparency and reporting for regulators' performance and decision-making
- robust recruitment processes and vetting of employees
- increased collaboration between regulators that co-regulate industries
- having at least two employees present during inspections for greater accountability
- comprehensive approaches to information security management.

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IBAC is Victoria's anti-corruption agency responsible for preventing and exposing public sector corruption and police misconduct. We do this by:

- investigating serious corruption and police misconduct
- informing the public sector, police and the community about the risks and impacts of corruption and police misconduct, and ways in which it can be prevented.

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