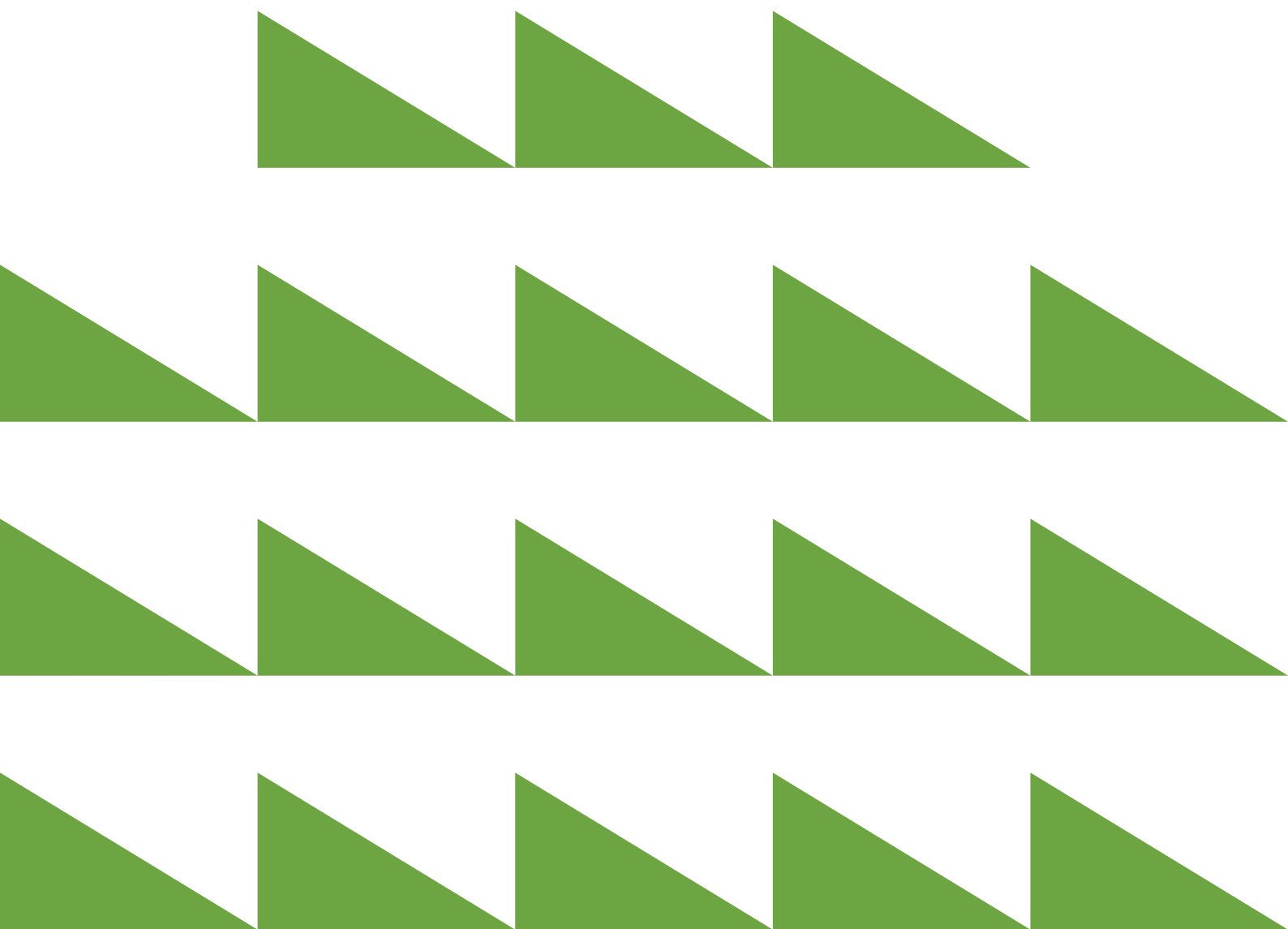


# Perceptions of corruption

Survey of Victorian Government suppliers

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June 2016



## Acknowledgments

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June 2016

Contact us if you need this information in an accessible format, please telephone (1300 735 135) or email ([communications@ibac.vic.gov.au](mailto:communications@ibac.vic.gov.au)). This document can also be found in formats on our website ([www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)).

For further information, please contact:

Communication unit  
Independent Broad-based Anti-corruption Commission  
Level 1, 459 Collins Street, Melbourne, 3000  
Tel 1300 735 135

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IBAC has identified significant corruption risks associated with public sector procurement. More than a quarter of our investigations have examined allegations around suspected corrupt conduct in procurement processes, and three of the four public hearings we have conducted to date<sup>1</sup> have examined allegations around corrupt practices in procurement.

Procurement is an everyday activity in the Victorian public sector, ranging from the purchase of low value goods and services to major infrastructure projects. Billions are spent by Victorian public sector agencies purchasing goods, services and capital works. That procurement is vulnerable to corruption at various stages – including the initial bidding process, the process of selecting a preferred provider, paying for and delivery of goods and services, and contract management.

This report examines suppliers' perceptions of corruption in Victorian public sector procurement, based on a survey of suppliers who have contracted goods or services to the Victorian public sector (comprising both state and local government), as well as suppliers who are interested in potential future contracting opportunities.

Why is it important to consider corruption in public procurement from the perspective of suppliers?  
As noted by Transparency International:

The cost of corruption in public contracting is not only measured by money lost. Corruption distorts competition, can reduce the quality, sustainability and safety of public projects and purchases, and reduce the likelihood that the goods and services purchased really meet the public's needs. When procurement is corrupted by private interests and not directed by the public good, trust in governments is eroded.<sup>2</sup>

<sup>1</sup> Operation Fitzroy investigated the conduct of officers at Public Transport Victoria, Operation Ord investigated the conduct of officers at the Department of Education and Training, as did Operation Dunham.

<sup>2</sup> Transparency International, Susanne, Kuhn and Laura Sherman, *Curbing Corruption in Public Procurement: A Practical Guide*, 2014, p.4.

## Key findings

IBAC's survey found that 40 per cent of respondents believe corruption in public sector procurement to be either a major or a moderate problem, while 34 per cent said they were discouraged from seeking a government contract because of their concerns about corruption.

Other key findings from the survey include:

- Construction and education were identified as the two industries where corruption was believed to be most likely to exist. Respondents who identified as working in these areas were more likely to believe corruption in those sectors was an issue.
- Suppliers' perception of the extent of corruption in the public sector was influenced by their perception of the extent to which certain behaviours were typical within the Victorian public sector:
  - 44 per cent of respondents said they believed it was typical or very typical for public sector officials to accept gifts, while seven per cent said a public sector official had requested a gift. Almost all of those respondents (90 per cent) said they believed corruption overall was a major or moderate problem.
  - 38 per cent of respondents said they believed it was typical or very typical for public sector officials to give suppliers unequal access to tender information, 66 per cent of whom stated corruption overall was a major or moderate problem.
  - 25 per cent of respondents said they believed it was typical or very typical for agencies to leak confidential tender information, 74 per cent of whom stated that corruption overall was a major or moderate problem.
- The procurement methods identified as most vulnerable to corruption were direct negotiations and procurement via non-tendered quotations. This reflects the greater degree of discretion exercised by public sector officials and less stringent controls in these processes, compared with panel contracts and tenders.
- 64 per cent of respondents said they would report corruption if they became aware of it. However those who believed corruption to be a greater problem were less likely to report it. The main barrier to reporting was a fear that reporting would negatively impact their organisation.

This report highlights action public sector agencies, the Victorian Government Purchasing Board (VGPB), Health Purchasing Victoria (HPV) and the Victorian Public Sector Commission (VPSC) could take to strengthen the integrity of public procurement processes, as well as suppliers' perception of the integrity of such procurement:

1. Public sector agencies should ensure suppliers are aware of how to report concerns with any part of the procurement process, including the suspected corrupt conduct of public sector officials and other suppliers. Suppliers should be advised of reporting mechanisms within public agencies, as well as external agencies such as IBAC and the VGPB.
2. To assist suppliers identify conduct of concern during a procurement process, public sector agencies should ensure suppliers understand the standards expected of public sector officials including requirements around conflicts of interest, impartiality, and gifts, benefits and hospitality.
3. Public sector agencies should proactively communicate with suppliers as to why it is neither necessary nor appropriate to offer public sector officials incentives (in the form of gifts, benefits or hospitality).
4. VPSC should, as part of its review of the Victorian public sector gifts, benefits and hospitality framework, consider the implementation of a ban on public sector employees receiving any gift, benefit or hospitality from a current or prospective supplier.
5. Public sector agencies should ensure they have robust conflict of interest frameworks in place, that employees are equipped to identify conflicts of interest and there are clear and stringent processes for managing those conflicts.
6. Public sector agencies should put in place oversight arrangements of procurement activity (whether a request for quote process, open or restricted tender, or panel arrangements) within their organisation to ensure that goods, services and works are being appropriately procured to deliver value for money and process integrity.
7. Bodies with responsibility for setting standards in public procurement (such as the VGPB and HPV) should give consideration to other measures agencies could take to improve transparency, such as the publication of information on selection criteria, providing unsuccessful bidders or tenderers with the reasons for the rejection of their bid or tender, and publishing information on all contracts awarded by public sector agencies.

## Methodology

The core questions for the survey were based on the survey of suppliers' perceptions of corruption conducted by the NSW Independent Commission Against Corruption (ICAC) in 2010.<sup>3</sup>

For IBAC's survey, suppliers were largely contacted using databases managed by the Department of Treasury and Finance and Health Purchasing Victoria, with the addition of a small group of local government suppliers who were contacted separately by email. The survey was open from 16 November 2015 to 11 January 2016 and was also promoted by IBAC through media channels. In total, 1480 responses were received.

As with the NSW ICAC survey, there were three sets of survey items which canvassed suppliers' perceptions of the:

1. Prevalence of corruption in Victorian public sector procurement
2. Extent to which specific behaviours associated with corruption are typical
3. Methods and stages of the procurement process most vulnerable to corruption.

Please note: due to rounding, percentage may not total 100.

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<sup>3</sup> For full details of the results of that survey, see NSW ICAC, *Corruption Risks in NSW Government Procurement: Suppliers' Perceptions of Corruption*, June 2011.

## 2 Perceptions of corruption

### 2.1 Perceptions of corruption

State and local government agencies must be able to attract quality bids from the best suppliers of goods and services in order to provide the best value for money for the Victorian community. Real or perceived corruption can undermine a procurement process by causing suppliers to alter their approach to government procurement, to the detriment of the public interest. This could include seeking favourable treatment, inappropriately offering or being pressured to provide gifts and benefits, or simply deciding not to bid for work because of lack of confidence in the soundness of the procurement process.

The survey found that 40 per cent of respondents believed that corruption in public sector procurement is either a major problem (15 per cent) or a moderate problem (25 per cent) while a further 24 per cent stated that it is a minor problem, as shown in Figure 1.<sup>4</sup> In comparison, it is interesting to note only 24 per cent of senior Victorian state public servants surveyed in 2012 identified the buying of goods or services as a corruption risk in their agency.<sup>5</sup>

Overall, 34 per cent of respondents said they had decided not to bid for government work because of their concerns about corruption in public sector procurement. Suppliers were more likely to respond in this way if they believed corruption to be a major or moderate problem. As shown in Figure 2, 59 per cent of respondents who believe corruption is a major problem in public sector procurement stated they had not bid on a government contract in Victoria because of their concerns about possible corruption.

Figure 1: Perceptions of corruption in public sector procurement (n=1345)

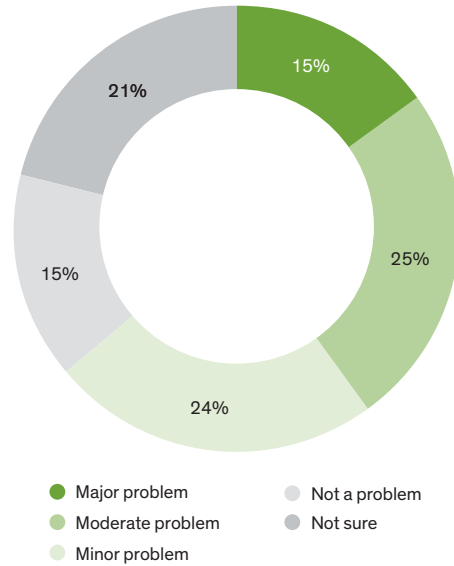
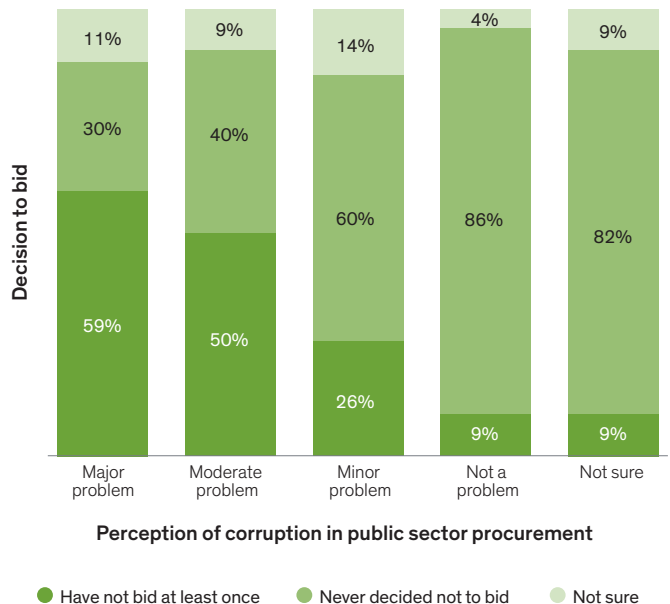


Figure 2: Decision not to bid due to concerns about corruption as a proportion of perceived extent of corruption in public sector procurement (n=1345)



<sup>4</sup> This is largely consistent with the NSW ICAC survey results in which 14 per cent stated that it was a major problem, 28 per cent stated it was a moderate problem, 25 per cent stated it was a minor problem, 18 per cent stated it was not a problem and 16 per cent stated they were not sure., op cit footnote 3.

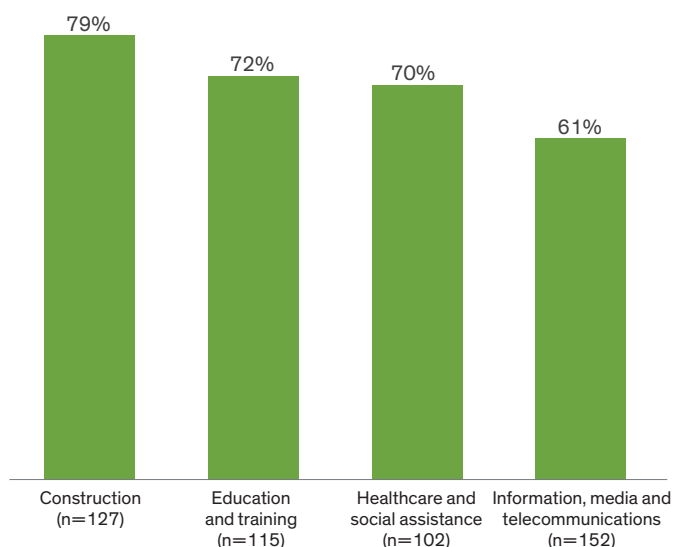
<sup>5</sup> The Social Research Centre and Australian National University, *Perceptions of Corruption in the Victorian Public Sector: Report to IBAC, VPS Survey March 2013*, p.8.

Suppliers who perceived corruption to be a major, moderate or minor problem in public sector procurement were asked to nominate the areas where they believe corruption exists. Construction was the most frequently nominated industry: of the respondents who nominated at least one area, 39 per cent said they believed corruption existed in construction. This is consistent with research conducted by Transparency International which identified construction and public works as the sector most prone to corruption.<sup>6</sup>

Suppliers were also likely to perceive public sector corruption to be a problem in a particular industry if they had worked in that industry. As shown in Figure 3, 79 per cent of respondents who worked in construction and 72 per cent of respondents who worked in education and training indicated they believed corruption was a problem in their respective sectors.

It is important to note the survey canvassed perceptions, not actual instances of corrupt conduct. Indeed, responses may reflect public awareness of inquiries underway around the time of the survey, including IBAC’s investigations into Public Transport Victoria and the Department of Education and Training, as well as the Royal Commission into Trade Union Governance and Corruption which examined alleged corruption in the construction industry.

Figure 3: Areas in which corruption is perceived to be a problem by those who work in the area

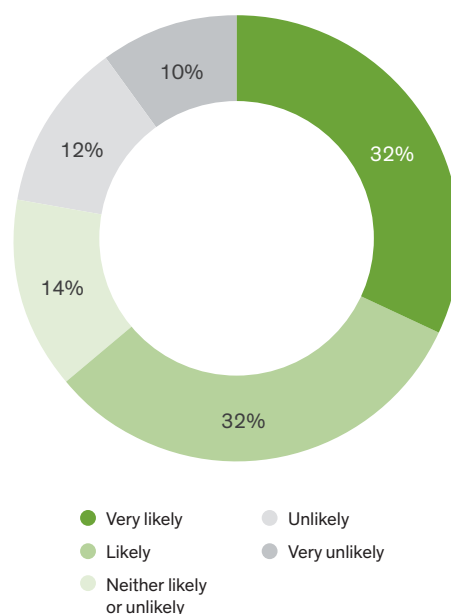


## 2.2 Willingness to report

Suppliers are uniquely positioned to identify possible corruption in procurement, as they may observe behaviours by public sector officials and/or other suppliers that give rise to suspicions about the legitimacy of a procurement process. Therefore it is important for the public sector as a whole to ensure suppliers feel confident to report if they have information about possible corruption in procurement.

As shown in Figure 4, 64 per cent of respondents said they were either likely or very likely to report if they had information about corruption of a serious nature, while 22 per cent stated they were either unlikely or very unlikely to report. However it is concerning that the majority of respondents who stated they would report do not believe corruption is a major or moderate problem (71 per cent) which suggests the concept of reporting may be theoretical for those respondents, while the majority of respondents who stated they would not report believe corruption is a major or moderate problem (63 per cent) but would be deterred from reporting.

Figure 4: Likelihood to report corruption (n=1280)



<sup>6</sup> Transparency International, Susanne, Kuhn and Laura Sherman, *Curbing Corruption in Public Procurement: A Practical Guide*, 2014, p.21, with reference to Transparency International, Bribe Payers Index (2011): <http://bpi.transparency.org/bpi2011/results/>

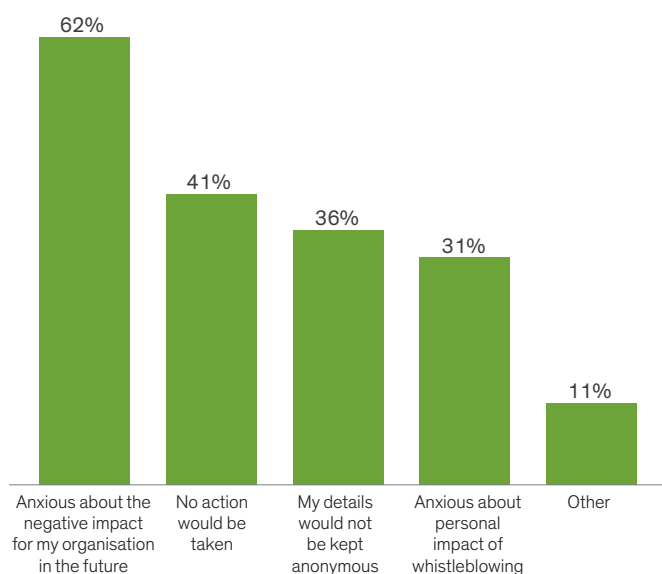


62 per cent of respondents who said they were unlikely to report corruption indicated they were anxious about the potential negative impact on their organisation (62 per cent). As shown in Figure 5, 41 per cent were concerned no action would be taken and 36 per cent were not confident their details would be kept confidential.

These results suggest it is important to reassure and demonstrate to suppliers that raising concerns will not adversely affect a company's chances of winning future work. Suppliers (both prospective and actual) must be made aware of how to report concerns with any part of the procurement process including the suspected corrupt conduct of public sector officials and other suppliers. Suppliers should be advised of reporting mechanisms within public agencies, as well as external agencies such as IBAC and the VGPB.

It would also be beneficial for suppliers to understand the standards expected of public sector officials in areas such as requirements around conflicts of interest, impartiality, and gifts, benefits and hospitality.

Figure 5: Barriers to reporting corruption  
Base: All respondents unlikely or very unlikely to report corruption (n=276)



## 3 Behaviours conducive to corruption

### 3.1 Misuse of information

Public sector procurement is governed by a range of procedures designed to ensure the decision making process is open, accountable, impartial and efficient. Two essential elements of the procurement process concern the equal provision of information to potential tenderers, and the security of information (including commercially sensitive material) provided by organisations bidding for work. If prospective suppliers do not feel confident they are receiving the same information as others or that their commercially sensitive information may be shared with competitors before close-of-tender, they may be deterred from submitting a tender.

Overall, 38 per cent of respondents believe it is typical for public agencies to give unequal information to suppliers interested in a tender. As shown in Figure 6, 16 per cent stated it was very typical while a further 22 per cent stated that it was typical.<sup>7</sup>

More than half of the respondents who stated it is typical or very typical for agencies to give unequal information were of the view that corruption is a major or moderate problem (66 per cent).

Comments were made by respondents expressing concern that some suppliers get advance notice and more time to prepare tender submissions:

So often the deadlines are no more than a week for submission of a substantial tender. This strongly implies that companies who regularly win the tenders are already aware and prepared to submit.

In the health area its very much about who you know and it's common for preferred suppliers to receive additional information and a 'heads-up' prior to a brief being released.

The survey found that 25 per cent of respondents believed it is typical for confidential tender information provided to an agency to be leaked to competitors prior to close-of-tender. As shown in Figure 7, 10 per cent stated this was very typical while a further 15 per cent stated that it was typical.<sup>8</sup>

Almost three-quarters of respondents who stated it was typical or very typical for agencies to leak confidential tender information believed corruption is a major or moderate problem (74 per cent).

Comments made by respondents included:

It would be nice if [agency] did not release confidential process information to competitive contractors.

I experienced numerous instances of corruption including 'leaking' of confidential information about my company's contractual arrangements...I decided NOT to respond to any [more] requests for tenders when I lost all confidence in the integrity of the process.

These results demonstrate the importance of ensuring public procurement processes are conducted with integrity and are seen to be so conducted. When suppliers perceive that key elements of the procurement process are compromised (for example, that certain suppliers receive additional information to assist the development of a tender), it can seriously undermine the confidence of prospective suppliers, to the extent that some may decline to bid.

<sup>7</sup> This is largely consistent with the NSW ICAC survey results in which 18 per cent stated it was very typical and 21 per cent stated it was typical.

<sup>8</sup> This is largely consistent with the NSW ICAC survey results in which nine per cent stated it was very typical and 15 per cent stated it was typical.

### 3.2 Gifts and benefits

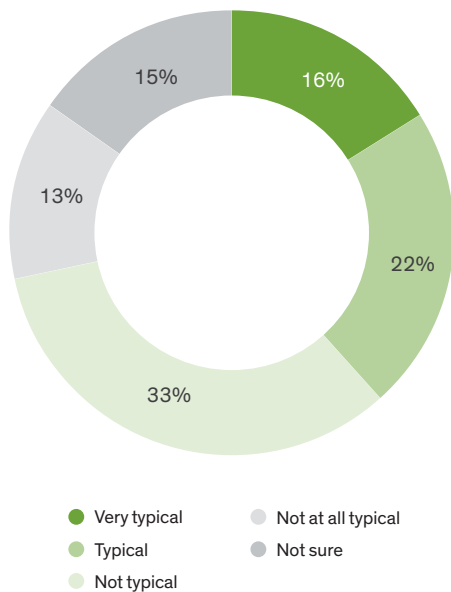
When a public sector official uses public funds to purchase goods or services, their choice of supplier must not be (and must not be perceived to be) influenced by incentives. Gifts and benefits are not acceptable in public sector procurement because they can undermine both public and supplier confidence in the process by either:

- Actually influencing the decision making process which may constitute corrupt conduct, or
- Creating a perception that the public sector official did not make their decision based solely on the public interest.

The perception that a public sector official may be receiving incentives from a prospective or current supplier matters, as one respondent noted:

When you see that the catering/procurement managers of some major Melbourne health venues are being entertained at the MCG etc in CORPORATE boxes you then begin to understand why they retained such contracts. It is not a good look for Victoria.

Figure 6: Belief that suppliers receive unequal tender information (n=1225)



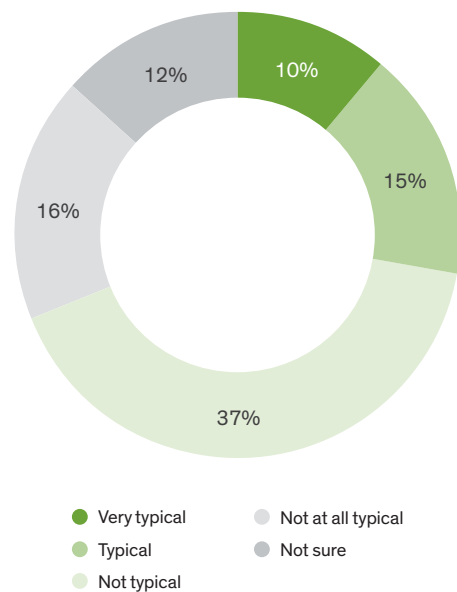
#### 3.2.1 Offers and acceptance of gifts

As shown in Figure 8, 52 per cent of respondents were of the view that it is typical for suppliers to offer gifts or benefits worth more than \$50. Specifically, 24 per cent stated it was very typical and a further 28 per cent stated that it was typical.<sup>9</sup> Of those who said it is very typical for suppliers to offer gifts or benefits, 69 per cent indicated they thought corruption in public sector procurement was a major or moderate problem.<sup>10</sup>

However, only five per cent of respondents said they had offered a public sector official a gift, cash or other benefit in the past 12 months, less than half of whom (44 per cent) indicated they thought corruption in public sector procurement was a major or moderate problem.<sup>11</sup>

When asked why suppliers might offer gifts or benefits to public sector officials, the most common reason cited was relationship building followed by influencing procurement decisions, as shown in Figure 9.

Figure 7: Belief that confidential tender information is leaked to competitors (n=1224)

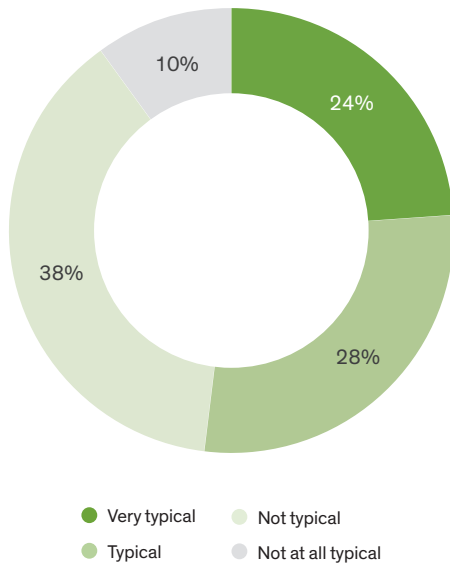


<sup>9</sup> This is largely consistent with the NSW ICAC survey results in which 18 per cent stated it was very typical and 30 per cent stated it was typical.

<sup>10</sup> 33 per cent stated it was a major problem and 36 per cent stated it was a moderate problem.

<sup>11</sup> 19 per cent stated it was a major problem and 25 per cent stated it was a moderate problem.

Figure 8: Belief that gifts or benefits are offered to public sector procurement officials (n= 1254)



While only a small proportion of respondents indicated they had offered a gift to a public sector official, it is interesting to note those respondents were more likely to cite goodwill as a reason for gift giving than a desire to influence procurement outcomes:

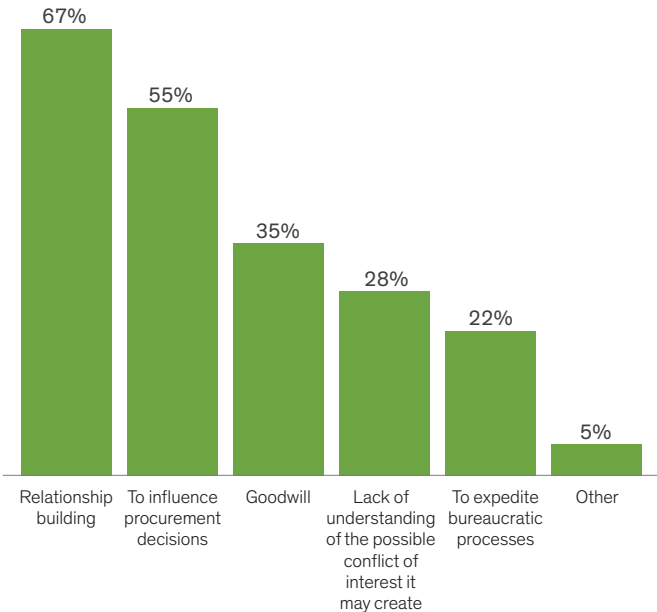
- Influencing procurement decisions was identified as a reason for offering gifts by a larger proportion of respondents who had not offered a gift (56 per cent) compared to those who had (21 per cent).
- Goodwill was identified as a reason for offering gifts by a larger proportion of respondents who had offered a gift (54 per cent) compared to those who had not given a gift (34 per cent).

It is not assumed that suppliers who offer gifts are corrupt. It is not uncommon for incentives such as loyalty cards, reward programs and branded ‘freebies’ to be used to promote business in the private sector. These incentives aim to gain exposure, increase sales and encourage repeat business. The onus is on government agencies to be conscious of the different drivers at play in the private sector (in which their suppliers operate) and proactively communicate why it is neither necessary nor appropriate to offer public sector officials incentives of any kind.

The following comments made by suppliers who responded to the survey illustrate the issues some grapple with in relation to incentives and the differences between their private and government clients:

It's standard business practice to give Christmas gifts... as such it's frustrating to have to remember to exclude government customers from these standard processes. Our business has an automated account management program that has triggers to send small gifts to customers randomly throughout the year, again it's been frustrating creating work arounds to exclude government customers. If the procurement process is strong enough and well documented a \$200 hamper from a vendor to their current customer will have no influence on the future decisions that customer takes.

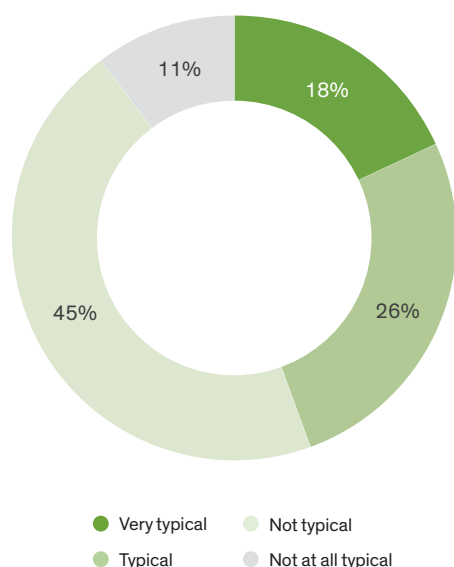
Figure 9: Reasons for offering gifts or benefits to public procurement officials (n= 1230)



We would like to engage with government and government officials by offering events, seminars or other gatherings which include both an entertainment (golf, comedian) and business content, to show off our services. These events are not lavish... The purpose of these events are to market and promote our services and leave a memento... that puts our logo repeatedly in front of the official and enhances our chances to NOT be left out of the next procurement cycle, because we are new and relatively unknown to Government.

More than 40 per cent of respondents were of the view that it is typical for public sector procurement officials to accept gifts or benefits.<sup>12</sup> As shown in Figure 10, 18 per cent stated it was very typical and a further 26 per cent stated it was typical. Of those who said it is very typical for public sector procurement officials to accept gifts or benefits, 72 per cent indicated they thought corruption in public sector procurement was a major or moderate problem.<sup>13</sup> This suggests the acceptance of gifts or benefits by public sector employees can diminish supplier confidence in the procurement process.

Figure 10: Belief that gifts or benefits are accepted by public sector procurement officials (n=1247)



### 3.2.2 Requests for gifts

Seven per cent of respondents stated that a public sector procurement official had asked them for a gift, cash or other benefit at some time, with almost all of those respondents (90 per cent) indicating they thought corruption in public sector procurement was a major or moderate problem.<sup>14</sup>

This concern was also reflected in the 2012 survey of senior Victorian public servants in which 32 per cent of respondents stated there were opportunities for bribery to occur within their agency and 54 per cent identified bribery as the most damaging act of corruption facing the Victorian Government.<sup>15</sup>

IBAC understands the VPSC is reviewing the Victorian public sector gifts, benefits and hospitality framework and will expand guidance and tools designed to help public sector employees deal appropriately with offers of incentives. It is suggested this review consider the implementation of a ban on employees receiving any gift, benefit or hospitality from a current or prospective supplier. It is noted the Integrity Commission Tasmania advises Tasmanian public agencies to adopt a policy that any public employee who is involved in purchases on behalf of their agency 'not accept any gifts or benefits especially from suppliers (past, actual and potential)', although token items and modest hospitality may be acceptable.<sup>16</sup>

Consideration could also be given to adopting the approach of the Queensland public service, where gifts or benefits valued at more than \$150 received by a public servant must be entered onto a register, which is published quarterly.<sup>17</sup>

<sup>12</sup> This is largely consistent with the NSW ICAC survey results in which 12 per cent stated it was very typical and 26 per cent stated it was typical.

<sup>13</sup> 39 per cent stated it was a major problem and 33 per cent stated it was a moderate problem.

<sup>14</sup> 51 per cent stated it was a major problem and 39 per cent stated it was a moderate problem.

<sup>15</sup> The Social Research Centre and Australian National University, *Perceptions of Corruption in the Victorian Public Sector: Report to IBAC, VPS Survey March 2013*, p.16.

<sup>16</sup> Integrity Commission Tasmania, *Template Policy: Offers of gifts and benefits*, [http://www.integrity.tas.gov.au/prevention\\_and\\_education/misconduct\\_risk\\_areas/gifts\\_and\\_benefits](http://www.integrity.tas.gov.au/prevention_and_education/misconduct_risk_areas/gifts_and_benefits).

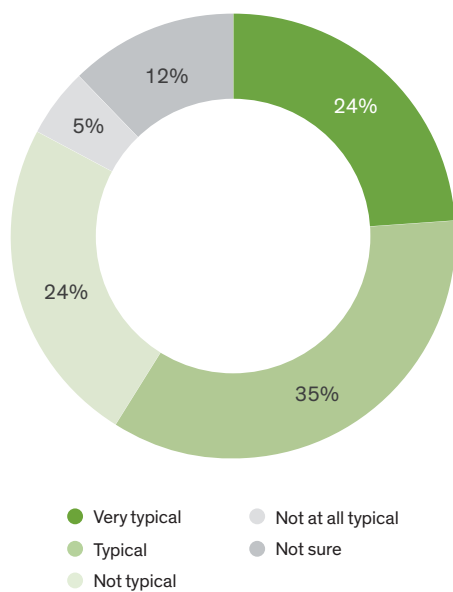
<sup>17</sup> Queensland Public Service Commission, *Directive No 22/09: Gifts and Benefits*.

### 3.3 Favouritism

Favouritism has the potential to undermine the efficacy of the procurement process and the market more generally. In terms of the procurement process, if certain stages are overlooked or tailored to suit a particular supplier, the entire procurement process may be rendered ineffective and potential tenderers may lose confidence.

Almost three-fifths of respondents (59 per cent) were of the view that it is typical or very typical for public sector officials to improperly favour certain suppliers during the selection process.<sup>18</sup> As shown in Figure 11, at the other end of the scale a mere five per cent stated it was not at all typical for Victorian public sector officials to improperly favour certain suppliers – this is substantially lower than the 2011 ICAC survey results in which 26 per cent said it was not at all typical for NSW public sector procurement officials to improperly favour certain suppliers. These results appear to suggest a lack of confidence in the objectivity of public sector employees undertaking procurement in Victoria.

Figure 11: Belief that public sector officials improperly favour certain suppliers (n=1215)



Comments made by suppliers suggest that some are deciding not to bid because of perceived favouritism:

Our experience over many years is that Victorian Govt tenders are a closed shop dedicated to a few 'mates'. We don't waste our time these days...The best way to overcome corruption is to rotate the tender or procurement managers on a regular basis. Preferably without advance notice to the existing managers and to have independent auditors measuring the outcomes of tenders on a regular basis.

There is a very insular approach to most tender bidding. We will not now tender for projects as independent advice received indicates we are effectively wasting our time. Victoria is the only state we will not tender in unless we are going with a local firm. We work in all other states and territories and internationally. The professional advice we received indicates Victoria contract tendering works on a heavily tilted playing field. Unfortunately we are at the wrong end so we have been advised not to waste our time. Seems to be very much 'who you know' to get opportunities to provide quotes for services.

It is easy to set selection criteria that exclude anyone except a particularly preferred supplier. In those cases it's really not hard to read between the lines and realise that only a particular firm could possibly win. It is also easy to set the deadline for responses with such a short timeframe that only a firm already working for that agency could possibly respond in time.

<sup>18</sup> This is slightly higher than the NSW ICAC survey results in which 22 per cent stated it was very typical and 33 per cent stated it was typical.

Interestingly, 33 per cent of respondents in the 2012 survey of senior Victorian state public servants indicated they thought there was an opportunity for corruption – in the form of hiring one's own company, or the company belonging to close associates or relatives to provide public services – within their agency.<sup>19</sup>

These results demonstrate how pervasive the perception of improper favouritism is among suppliers and how corrosive this view can be to those suppliers' confidence in the public sector procurement process. Indeed, it appears the view that favouritism occurs in public sector procurement appears to be shared by a fair proportion of senior public servants suggesting the issue – whether real or perceived – warrants further attention from Victorian government agencies.

The VPSC is reviewing guidance to public sector employees around how to manage conflicts of interest, with a view to ensuring agencies implement more robust monitoring regimes. It will be important for public sector agencies to ensure their employees fully understand their requirement to declare actual and perceived conflicts of interest, and to put in place clear and stringent processes for managing those conflicts.

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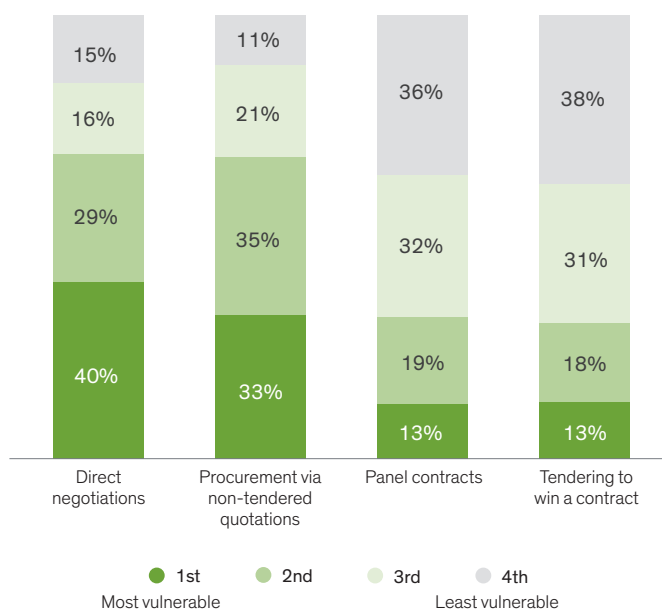
<sup>19</sup> The Social Research Centre and Australian National University, *Perceptions of Corruption in the Victorian Public Sector: Report to IBAC*, VPS Survey March 2013, p.11.

## 4 Vulnerabilities within the procurement process

### 4.1 Procurement methods

Suppliers were asked to rank four methods of procurement according to how vulnerable they perceived those methods to be to corruption. As shown in Figure 12, direct negotiations and procurement via non-tendered quotations were perceived to be most vulnerable to corruption (considered vulnerable by 69 per cent and 68 per cent of respondents respectively). Procurement via panel contracts and an open tender process were perceived as least vulnerable to corruption. These results are logical: direct negotiations and non-tendered quotations involve a higher degree of discretion on the part of public sector officials and are subject to less stringent controls than panel contracts and tenders.

Figure 12: Perceptions of the easiest procurement methods to corrupt



However, a number of suppliers' comments suggested concerns about the use of panel contracts, suggesting some suppliers perceive panels are established to select a particular supplier, after which others on the panel are not offered work:

The use of panel contracts to select individuals to provide services can be unduly influenced once a supplier has developed a strong relationship with government officers, therefore the request for tender is just a process undertaken so that the supplier they want can be selected via a tendering process.

Seems like a lot of us on panels have done a lot of work for very little reward.

Just because a business is a panel provider does not mean that business receives any work. It is very easy for panels to fall prey to corruption by services sending more lucrative work to one business over another. It is difficult to demonstrate corruption because often it is reasonable to say 'this business has a good record of achievement so we chose that one', even when it is an inequitable situation.

It is suggested that public sector agencies put in place oversight arrangements of procurement activities (whether a request for quote process, open or restricted tender, or panel arrangements) within their organisation to ensure goods, services and works are being appropriately procured to deliver value for money and process integrity.

The Victorian Auditor-General's Office has previously recommended, in relation to advisory engagements, that departments demonstrate the integrity and value for money of those engagements by – inter alia – documenting the planning work to justify the engagement, identify and manage risks and to determine the preferred means of procurement.<sup>20</sup>

<sup>20</sup> Victorian Auditor-General's Officer, *Managing consultants and contractors*, June 2014, p.31.



## 4.2 Procurement stage

The procurement process is comprised of numerous stages from the development of the business case, budgeting, advertising and assessment, through to contract management and evaluation.

Suppliers were asked to rank six stages in the procurement process according to how easy they are believed to be to corrupt. Figure 13 outlines the responses, listed in chronological procurement process order. As shown the assessment and decision making stage of the procurement process was perceived to be most vulnerable to corruption (ranked easiest or second easiest to corrupt by 46 per cent of respondents), followed by the business case stage (41 per cent) and the contract management stage (40 per cent).

This suggests that procurement is perceived to be most vulnerable to corruption at the beginning of the process when the specifications are being developed as well as the process of selecting the preferred provider and contract management. These responses were largely consistent with the findings in the 2011 ICAC survey in which respondents identified the same three stages as being most vulnerable to corruption. ICAC noted that in

comparing suppliers' perceptions with those of public authorities, it was possible that public authorities were underestimating the corruption vulnerabilities in the early stages of the procurement process.

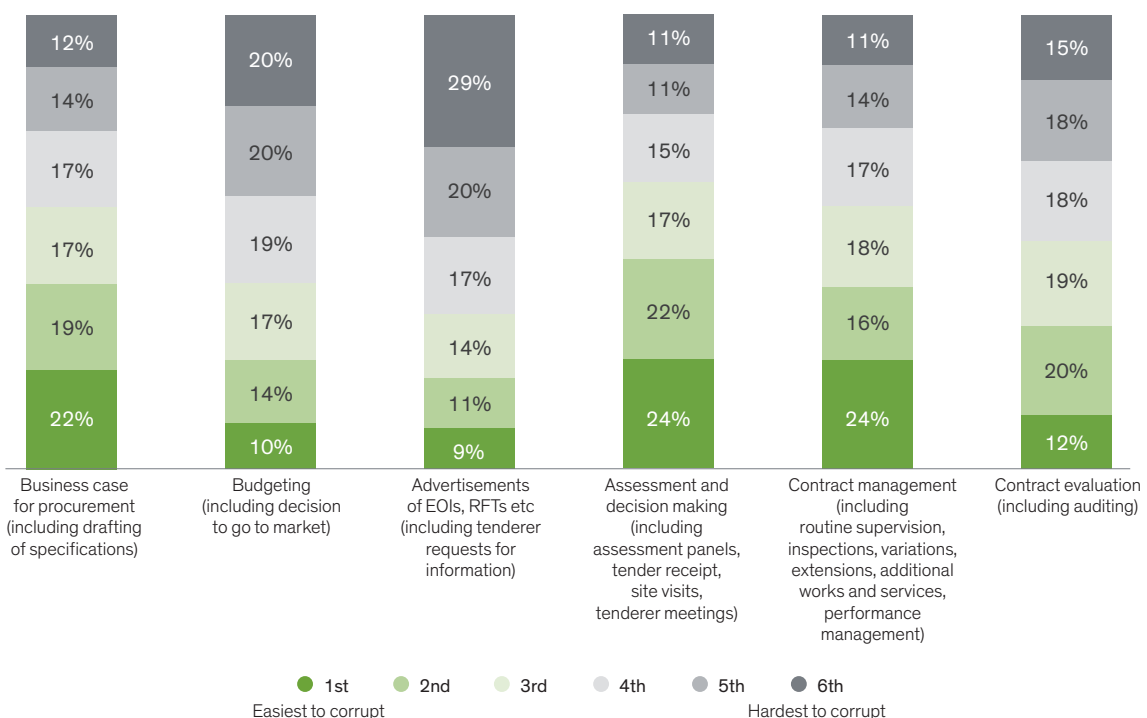
A number of suppliers made comments expressing their concern that tender specifications were tailored to favour particular suppliers, suggesting that some agencies do not genuinely consider all tender applicants. A sample of these comments is outlined below:

[The area] where I have mostly come across issues is in the brief provided for tendering. There are times when the brief is written for a particular supplier, so the process is undermined from the beginning.

It feels like a closed market. Often 'project experience/ references' are used to exclude or low mark companies in favour of companies that have the ear of the people calling the tender.

We have been asked to submit [a] proposal by an officer when they recognised the role had already been assigned to someone else but would we do them a favour and submit a quote. If we had not, it would have been detrimental to future opportunities.

Figure 13: Perceptions of the easiest stages in the procurement process to corrupt



[Tender] specifications can include minute details favouring one brand over another to ensure desired outcome. Specifications should be audited to prove they are broad and not exclusive or designed to eliminate competition.

The primary form of 'soft corruption' at the moment is in bidder specification (which has been written by the major consultancies who benefit to the greatest degree from the shaping of procurement approaches)...

Often a local government goes to tender and already has in mind which consultant they would like to appoint. In one case the preferred consultant wasn't even going to put in for the tender until they were called by council and encouraged to put in for it. This consultant won the tender.

There is far too much compulsory tendering, just to comply with the requirement for compulsory tendering, without regards to the huge volume of work executed by the tenderers. Often public sectors, due to long standing relationships with a tenderer, will have a good idea whom they want to win the tender; others will be invited/allowed (we call such invited tenderers 'fodder') to tender just to comply with the required compulsory tender process, whilst having next to no opportunity to win the tender.

These results suggest supplier confidence in the integrity of procurement would be strengthened by improving the transparency of decisions made by public sector officials. Public bodies which have responsibility for setting standards in public procurement (such as the VGPB and Health Purchasing Victoria) should consider ways of improving transparency around procurement, such as publication of information on selection criteria, providing unsuccessful bidders or tenderers with the reasons for the rejection of their bid or tender, and publishing information on all contracts awarded by public sector agencies.

## 5 Conclusion

IBAC's survey of suppliers revealed a substantial proportion (40 per cent) perceive corruption is a major or moderate problem in procurement in the Victorian public sector, while a third indicated that they had been deterred from bidding or tendering for government work because of their concerns about corruption. There were also substantial numbers of suppliers who believed it was typical or very typical for gifts, benefits and hospitality to be offered by other suppliers to public sector officials, agencies to give unequal tender information to suppliers, and for public sector procurement officials to favour certain suppliers.

These results are concerning as they indicate a substantial proportion of suppliers believe – rightly or wrongly – that procurement processes within the Victorian public sector are open to corruption. A lack of trust in public procurement can adversely influence decisions about bidding or tendering for work, possibly resulting in inferior outcomes for the Victorian community.

It is therefore important that Victorian public sector agencies, and agencies such as the VPSC and VGPB, take all possible steps to ensure procurement is conducted – and is seen to be conducted – with integrity.

IBAC is aware of work, overseen by the Victorian Secretaries' Board, to strengthen policy frameworks on conflict of interest and gifts, benefits and hospitality, as well as work to ensure contractors are aware of and comply with expected standards of integrity and ethics. This work which seeks to address issues exposed through IBAC's major investigations into conduct of officers at the Department of Education and Training, is a positive step. However, these survey results demonstrate the need for further action to strengthen the integrity of procurement processes and to increase the confidence of suppliers in those arrangements.



