Transparency International New Zealand

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Members' Update

21 July 2009

Issue 4/2009

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Transparency International is a not-for-profit, non-government organisation, which aims to counter corruption in international and national business transactions and government decision making.

Transparency International is politically non-partisan and does not undertake direct investigation of alleged corruption or expose individual cases.

There are over 90 National Chapters of TI worldwide. Each chapter is an autonomous body supported by a global Secretariat based in Berlin

UK Parliamentary Expense Scandal - Could it happen in NZ?

(Editorial comment from Claire Johnstone, Dep Chair, Transparency International (NZ))

The Corruption Scandal in the British Parliament should serve as a sobering lesson to all of us. Britain is a country which has always been held in high esteem because of its democratic and transparent systems. It sits near the top (16th) of the Transparency International Corruption Perception Index – New Zealand is number one along with Denmark. Bottom of the index, at 180, is Somalia. The scandal broke after a British paper obtained details of some MPs' expense claims which included porn movies, cookies, horse manure and maintenance to the moat of a country mansion. The paper also revealed how some MPs manipulated rules to furnish or upgrade homes, avoid taxes, or claim for mortgage payments on home loans that had already been paid off. The outcome is that the British Parliament will need to spend the next few years trying to restore public faith in its integrity.

The interesting thing about this rort is that it was so widespread – it wasn't one or two members it was many. It included members from both sides of the house and the speaker of the house. When this type of thing occurs, the question has to be asked as to how the system allowed this to happen and secondly, did those who made the claims see it as a legal or moral entitlement that "everyone" else had. In other words, having reached the lofty heights of power, did they feel there must surely be some rewards?

I suspect, the UK MPs may hold the view that they had a right to these perks- because of their lofty status. Clearly some New Zealand politicians may also have held that view, having in the past been embarrassed by expense claims which attracted considerable public scrutiny. Remember Jonathan Hunt's $27,000 taxi bill – or the accommodation allowance claimed by Phillida Bunkle and Marian Hobbs. At the heart of this issue was

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TI NZ People & New Office

The world of Transparency International (New Zealand) is changing. We have a new office and new people.

New Office: We have moved to new offices at **L4, 49 Boulcott St.** Our new telephone number is **04 894 9114.** Drop in sometime!

New People

We have additional human resources through the voluntary assistance of TI supporters Natalie Shaw and Jenny Browne;

- **Jenny Browne** is working at the office for 15 hours a week as a voluntary intern. She is currently undertaking post-graduate policy and development study at Victoria University and will be providing research support to TI NZ, preparing newsletters and assisting with website editing,.
- **Natalie Shaw**, an associate at SEB Strategy, is assisting with our response to the recently introduced *Anti-Money Laundering & Countering Financing of Terrorism Bill.* We will also draw on Natalie's legal background for assistance with other specific projects.

Our thanks to both Jenny and Natalie.

Minister Hide Breakfast Meeting

Approximately 40 members and guests attended TI's breakfast meeting on 14 July at the Wellington Club.

Minister of Local Government, Hon Rodney Hide was our guest speaker and key messages from his address were;

1. Extending the principles of the Fiscal Responsibility Act to Local Bodies.

The Minister expressed support for the principles of the Fiscal Responsibility Act being applied to Local Government. The Act requires explicit objectives to be established; explanation for any changes; ensures the provision of comprehensive financial information for informed and focused debate about fiscal policy; and requires specific intentions for fiscal management beyond the next 12 months to be reported.

2. Improving the link between Council s' plans and public agreement to fund.

The Minister described the gap which exists between the plans promoted by Councils and the community's commitment to fund those plans.

The Minister argued the key to transparency and accountability was ensuring we better defined the fiscal envelope. The Minister stressed he was not arguing for a fiscal cap, but for councils to base their development plans on a commitment from ratepayers to fund those plans.

The Minister also expressed concerns with long-term planning processes. District Plans provide little opportunity for ratepayers to monitor or refine. He also questioned whether our long-term social and economic planning processes were realistic as there was little evidence to suggest we could accurately predict future community structure.

3. More clearly defining the role of Local Government

To highlight the range of activities in which Local Bodies were involved, the Minister gave examples of local body businesses such as aquacentres, lotto shops, farming ventures, and picture theatre. The Minister suggested that many such activities came about through the personal interests of very small numbers of people and were not part of the role envisaged, or committed to, by ratepayers.

The Minister promoted greater opportunity for councils to be distinctive but within clearly defined core roles and responsibilities. Any variation away from core functions should be based on a true majority of ratepayers agreeing to provide the funding base. He again emphasised that transparency and accountability of councils was dependent on achieving a far greater commitment from ratepayers to funding council plans.

Open Budget Initiative 2010

TI New Zealand has again been invited to lead the *Open Budget Initiative 2010* survey in New Zealand. Director, Murray Petrie, will lead the project on TINZ's behalf and we will be strongly relying on his previous experience in carrying out the survey in New Zealand.

The Open Budget Survey operates on a two-year cycle. We are starting our work for the Open Budget Survey 2010 in June 2009, collecting data that will be published in November 2010.

The International Budget Partnership (IBP) will coordinate the completion of the *Open Budget Questionnaire* in approximately 90 countries for the Open Budget Initiative 2010 (OBI 2010).

The OBI's purpose is to promote public access to budget information. Believing that an open and transparent budget empowers citizens to judge whether or not their government is the best steward of public funds.

New Zealand was among the top five countries in the 2008 OBI. However, as said in our first newsletter this year there were two main areas where improvement could be made:

1. There is no process to ensure that findings of the Auditor-General are properly considered and problems raised by the Auditor-General are addressed. Many countries have formal mechanisms to ensure that the government responds to audit findings.
2. Secondly, there is a serious lack of transparency in regard to tax expenditures – special tax breaks and concessions for favoured activities. While the budget now shows any *new* tax expenditures being introduced, it is decades since the government last publicly disclosed how many of these provisions there are in the tax code and their cost to the taxpayer.

Subsequent to the release of the 2008 OBI Directors Murray Petrie and David Macdonald met with Peter Bushnell (Treasury Deputy Secretary and responsible for preparation of the NZ budget) and Ken Warren (Chief Accountant at Treasury) to discuss the 2008 OBI results.

Murray has reported that it was a useful discussion and the Treasury official were receptive to suggestions for improvement and commented that there was an active review of some items.

Transparency International 2009 Global Report

Corruption & the Private Sector

Transparency International's Global Corruption Report 2009 is due for release in August. Topics covered include:

- Corruption inside the enterprise: responding to corporate fraud and conflicts of interest.
- Needs-tailored strategies: addressing corruption risks in SMEs, high-risk industries and privatisation programmes.
- The state of play in compliance, reporting, codes and regulation: what works, what doesn't, what's next?
- Holistic corporate integrity – aligning values, incentives and market signals: engaging owners, lenders and gatekeepers.
- New and emerging markets: compliance in a changing global economy.

More details on the 2009 Global Report in next month's newsletter

TI Secretariat Working Papers

This month we highlight the following draft policy documents;

TI Practical Guidance Note: Government Anti-Corruption Hotlines, May 2009

Using four comparative case studies TI looks at some of the good practice approaches that have been identified for government hotlines. Concluding that it is crucial for hotlines to address a variety of challenges; institutional, operational and administrative in order to work effectively. The full note can be found at the following link:

http://chapterzone.transparency.org/chapterzone/ti_papers/working_papers/draft_pgn_hotlines

Recovering stolen assets: A problem of scope and dimension (Draft working paper) , April 2009

This working paper gives an overview of Asset Recovery and highlights some of the current debates. It looks at the main issues facing asset recovery. Such as:

- The lack of definition regarding what constitutes stolen assets.
- Improved legal and financial regimes in developed countries to prevent the outflow of these stolen assets
- A need for smoother process in the locating and repatriating of stolen assets.

The full draft of this working paper can be downloaded from the following link:

http://chapterzone.transparency.org/chapterzone/ti_papers/working_papers/wp_asset_recovery

Worldwide Governance Indicators (WGI) Project.

The World Bank has recently released the eighth Worldwide Governance Indicators report, considered one of the most comprehensive cross-country sets of governance indicators. The Report highlights the challenges that remain for rich and poor countries alike, and draws attention to the well-established link between better governance and improved development results.

"The good news is that some countries are recognizing and responding to governance challenges, and are showing strong improvements that reflect concerted efforts by political leaders, policymakers, civil society, and the private sector," said **Aart Kraay,** co-author of the report and Lead Economist in the Development Research Group of the World Bank.

At the same time, other countries have stagnated, and still others have regressed in key dimensions of governance. In fact, the updated WGI show that current governance standards have plenty of room for improvement in many industrialized countries and emerging economies.

"We should not presume that rich and powerful countries have the very best levels of governance and corruption control; the financial crisis reminds us that the quality of governance in G8 countries is not always exemplary", said **Daniel Kaufmann,** co-author of the report and a Senior Fellow at the Brookings Institution.

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Links of Interest

The Kaufmann Governance Post:

Danny Kaufmann is a Senior Fellow at the Brookings Institution and was previously Director at the World Bank Institute, leading the work on Governance and Anti-Corruption. In his blog he writes about some ideas, findings, current events and initiatives on Governance, Corruption and Capture, around the world.

http://thekaufmannpost.net/

Corruption And The Global Financial Crisis

In an interview for Forbes magazine Danny Kaufmann expresses his concerns and ideas in regards to corruption, especially when looked at our present world economic situation. Expressing particular concern with "state capture" corruption in industrialised nations such as the U.S.

http://www.forbes.com/2009/01/27/corruption-financial-crisis-business-corruption09_0127corruption.html

Fourth Meeting of the Global Compact Working Group on Anti-Corruption

From the 26th to 27th of February this year the 4th meeting of the Global Compact Working Group on Anti-Corruption was held at the U.N headquarters in New York. Transparency International was also at the meeting to present its progress on a project to create more standardised anti-corruption reporting . Also T.I presented progress on work being done in conjunction with major accounting firms on a model for independent assurance on company anti-bribery systems. The meeting report PDF can be downloaded from the following link:

http://www.unglobalcompact.org/Issues/transparency_anticorruption/Anti-Corruption_Meetings_and_Events.html

(Continued from page 1) ***Editorial: Could it happen in NZ?***

whether an MP's place of residence, for the purpose of registering as an elector under the Electoral Act 1993, determines the MP's "primary place of residence" for the purpose of claiming a Parliamentary accommodation allowance. Both MPs claimed the allowance while being registered as electors in the Wellington Central electorate.

While not corrupt, the MPS apparently felt they had an "entitlement" to the same allowance their out of town colleagues had. It appears when you get into areas like expense claims - politicians need very clear rules.

In a less materialistic way – but equally corrupt is misuse of power. The allegations against Richard Worth and the response from his leader John Key - bring to the fore how seriously we must take abuse of power. It must be made clear to all politicians that their position does not give them the right to do as they please.

So is New Zealand at risk of a widespread scandal such as that facing Britain? Are we so busy congratulating ourselves over our non corrupt status that we put ourselves and taxpayers money at risk?

The list of MPs convicted or accused of corruption in this country is short. Donna Awatere Huata was convicted in 2005 for stealing from a Maori Trust set up to help underprivileged children. Former Labour MP Philip Taito Field is currently facing charges of bribery and of attempting to pervert the course of justice. He is also accused of making false statements to the inquiry into the allegations against him.

But the list of convictions for theft, fraud and corruption in this country is growing – among the convictions are a number of public servants.

One of the more recent being Michael Andrew Swann - former Chief Information Officer for the Otago Health Board. He was found guilty of defrauding his employer of $16.9 million. It is the largest known employee fraud ever committed in New Zealand.

There was also the former Inland Revenue investigator, Alex Song, who pleaded guilty to corruption after trying to extort $120,000 from a Chinese couple. Song, a Chinese national, was arrested after attempting to extort payments from the couple who had been running a business buying and selling goods on TradeMe.

High profile Immigration boss Mary-Anne Thompson has also been charged with fraud, and that is not to mention her entire Pacific Division of Immigration which under her leadership was said to have lacked accountability, transparency and proper process. There are numerous other cases of immigration consultants extorting money from other internationals.

A 2006 KPMG survey of Australian and New Zealand firms found that nearly 50 per cent of firms had experienced at least one fraud in that year and they also said the best way to prevent fraud was internal controls. It was also noted in the same report that kickbacks and bribery accounted for 43% of fraud within Asian operations. So taking this into account – and acknowledging these statistics include Australia it is still clear that New Zealander's – are not as squeaky clean as we might think. But what we do seem to have are systems and values which ensure that such rorts or frauds are picked up earlier and acted upon.

We have institutional controls – internal and external audits, codes of conduct, rules and procedures, limits on discretion, an honest judiciary and whistle blowing legislation. We also have the Official Information Act and uncontrolled media who are still prepared to publish without fear of being closed down or murdered for highlighting corrupt practice. We also have the "opposition" who appear to spend endless time trying to find information on fellow politicians in order to cast dispersion on another's integrity. And while this habit probably does little to help the country's economy grow, it perhaps helps to keep things honest.

New Zealand also has a values based society – perhaps it is our mostly Presbyterian foundation - but it seems that as New Zealanders - we value integrity, more than just following rules. We have a sense of fairness and encourage a culture of honesty. We are inherently nosey - we notice things that seem out of kilter – excessive expenditure, odd behaviour, unusual friendships - and we tell people. We are suspicious of tall poppies and there are no real secrets in this country!

But be warned – we are not beyond doing what the UK politicians did. We have done similar things in the past albeit somewhat smaller and more discreet, but had there not been questions raised - who knows?

The reality is that every other country in the world except Denmark sits below us on the Transparency index and if we want to stay up there we must ensure everyone, including politicians and public servants understand our rules, our values and our attitude of "zero" tolerance to corruption and fraud.

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The WGI is a research project initiated by Kaufmann and Kraay in the late 1990s, and is now coauthored with **Massimo Mastruzzi of the World Bank Institute**.

The WGI measure six broad dimensions of governance, including:

- **Voice and Accountability:** the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, association, and the press.
- **Political Stability and Absence of Violence:** the likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism.
- **Government Effectiveness:** the quality of public services, the capacity of the civil service and its independence from political pressures; the quality of policy formulation
- **Regulatory Quality:** the ability of the government to provide sound policies and regulations that enable and promote private sector development
- **Rule of Law:** the extent to which agents have confidence in and abide by the rules of society, including the quality of property rights, the police, and the courts, as well as the risk of crime.
- **Control of Corruption:** the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as elite "capture" of the state

The full report can be viewed at
http://info.worldbank.org/governance/wgi/index.asp