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Fraud Forum

Transparency International New Zealand recently attended a fraud forum organised by the accountancy firm Ernst & Young in its Wellington office. The forum provided a good opportunity for members of the Wellington business community to come together and discuss the issue of fraud in New Zealand.

The forum began with a presentation by Ernst & Young's Fraud Investigation & Dispute Services executive director, Nick Paterson. Mr. Paterson made some interesting observations regarding the global financial recession and its effect on fraud. He noted a rise in the number of corruption cases of which bribery appeared to be the most common form. In terms of a general trend resulting from the recession, he noted that hard financial times have changed fraud from being "greed driven" to "need driven". and has caused an increase in the monetary amount involved in fraud cases.

Mr Paterson then went on to discuss the most effective methods companies can implement to protect themselves from fraud. Effective controls included surprise audits, job rotation and codes of conduct. The use of whistle-blower hotlines was also recommended as a cheap and valuable fraud and corruption control. However,

this particular method sparked some discussion regarding the Kiwi culture of "not dobbing" and whether hotlines worked as efficiently in New Zealand as in other countries. Mr. Paterson pointed out that New Zealand can not afford to hide behind its culture as a reason for not supporting the use hotlines. Rather there is a need to accept there are potential difficulties in using this method and look for possible solutions.

Following the presentation, a panel of fraud experts from various companies took questions from the attendees. The majority of questions centered around types of fraud found in New Zealand and the panelists' past experiences with fraud.

The forum clearly demonstrated that New Zealand companies are interested in the issue of fraud prevention and are more than happy to take time out to discuss it in an open manner and learn from others' experiences. Transparency International (NZ) fully supports events such as this and would wish to see more of them scheduled on a regular basis.

Fraud Investigations Soar

The accounting firm KPMG released its Fraud Barometer findings for the six months leading up to December 2009.

From June to December a total of \$76 million was defrauded, a significant jump from the first half of the year which saw only \$22 million defrauded. However, the high figures in the second half of 2009 is a reflection of a number of cases which involved extremely large sums of money and most were not new cases. However, KPMG's Forensic Partner Mark Leishman has warned that the rise in fraud is likely to continue as we are yet to feel the full effects of the economic downturn.

The most prolific types of fraud were fraudulent loans and tax evasion, while the manipulation of accounts by internal staff continues to be a significant threat to both financial and commercial organisations. The report notes a sizeable increase in the number of fraudulent loan frauds in 2009 compared to 2008. KPMG feels that this is a reflection of bank customers feeling the pressure due to the economic downturn.

In terms of its victims the government is the most common target of fraud, although they tend

to be for smaller sums than frauds committed against financial institutions.

Perhaps the most startlingly finding that comes out of the report is that 50 per cent of organisations in a two year period fall victim to some form of fraud and Mr. Leishman estimates that around 60 per cent of fraud cases go unreported. KPMG's findings are not necessarily negative and in fact the significant rise in figures may represent the increased detection of fraud and effectiveness of anti-fraud controls. However, the report is a reminder that fraud is a significant problem in New Zealand and organisations need to take measures to safeguard themselves from potential fraudsters.

You can download the full KPMG report at the following link:

<http://www.kpmg.co.nz/download/104515/122592/Fraud-Barometer-Findings.pdf>

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

TI(NZ) Members' Page



Starting this month the TI(NZ) Members' Update will regularly invite one of our members to share their thoughts on corruption and on the role of TI(NZ).



Liz Brown

Liz Brown has recently joined TI(NZ). She stepped down from her position as the New Zealand Banking Ombudsman, a role she had held for 14 years.

TI: How do you think corruption affects New Zealand?

LB: I feel that corruption affects New Zealand in two ways:

First, New Zealand enterprises are often ill prepared and lacking in appropriate processes to manage corruption when they are conducting business on an international level. This means that when their staff are confronted with corruption overseas, there is little to assist them to take a principled approach.

Second, there is a danger of New Zealand suffering from complacency. As a country we continually come out well in corruption surveys and the like, and this leads us to believe that corruption is completely non-existent in this country. As a result, we are not alert to the possibility of corruption and when confronted with it, we may not recognise it. Following on from that last point, corruption is most commonly thought of in terms of bribes, money laundering and other action involving money. However, corruption is more than that. It is the misuse of power for personal gain in any way shape or form. How often in New Zealand do we hear the phrase "it's not what you know but who you know"? We are a small country, within it we do have extensive networks, and there is nothing wrong with this. However it is an environment in which an unhealthy degree of patronage can flourish, and this is a form of corruption that we need to recognise and discourage.

TI: What steps do you think we can take to safeguard us from corruption in New Zealand?

LB: Transparency, transparency and transparency. Both in the public and private sector. To take one example, one cause of the recent collapse of a number of finance companies was borrowing to invest in insufficiently diverse property developments, which meant that if one development fell

down the whole company was destabilised. Part of the problem was a general lack of transparency or clear, easily understood information for investors. . . It is generally understood that a high return on an investment is an indication of the higher risk involved. Higher interest rates mean higher risk. Finance company interest rates were often low, so investors assumed that their investments were low risk and safe.

It is good to see that some of the issues in the finance sector are being addressed through the new regulatory regime for financial advisers and financial service providers, but this is only after many people have suffered losses they cannot afford.

TI: Why do you feel that Transparency International is an important organisation?

LB: It is the only organisation that addresses a wide-ranging spectrum of issues in New Zealand and overseas, both within the private sector and public sector.

TI: What do you think the focus of Transparency International NZ should be in New Zealand?

LB: In my opinion there are two main areas on which TI New Zealand should be focusing. First, there is a need to bring people's attention to the tools available within New Zealand to deal with corruption. The Official Information Act, the Protected Disclosures Act and Privacy Act are all there to provide protection to citizens and to ensure their access to information about themselves personally and the issues that affect them. TI(NZ) could focus on ensuring that people are aware of their existence and know how to use them.

The second area that I see is as being of great importance is local government and the operation of the Local Government Official Information and Meeting's Act 1987 (LGOIMA). In many ways people

are more directly affected by the actions of their local council than those of the central government. The general public seems to be insufficiently aware of the existence of the LGOIMA and the rights that it gives them. Even local authorities themselves are sometimes unaware of the rights that people have. **Some years ago** I was involved in a study of open government at the local level and was surprised at the lack of understanding of LGOIMA and especially of provisions designed to give citizens the information they need to participate fully in consultation exercises and decision-making at local government level.

There are also problems with local government meeting processes. Although LGOIMA obliges councils to hold meetings in public when decisions are to be made, there is nothing preventing them conducting most of the discussion of the issues in committee and then admitting the public only to the session where the formal decision is taken.

These are just two of the areas in which I see TI New Zealand involvement as important to safeguarding transparency in New Zealand.

TI: How does corruption in other countries impact on New Zealand?

LB: As I have mentioned earlier I see New Zealanders as having some difficulty dealing with corruption when they come into contact with it. There is a need for New Zealand organisations working on an international level to put in place clear and robust policies that are designed to deal with corruption, and to support their staff in making sure the policies are implemented.



Law Reform Committee in Vic. Australia Calls for Stricter Codes of Conduct for MPs

TI Australia

Source: TI Australia February 2010 Newsletter

On 9 December 2009 the Victorian Parliament's Law Reform Committee released its final report on its review of the Members of Parliament (Register of Interests) Act 1978. The 1978 Act sets out a code of conduct for members of parliament in Victoria and requires them to disclose personal interests that have the potential to conflict with their public duties, such as land and shareholdings, in a public register.

The 35 recommendations in the Committee's report include:

- a new statement of values which sets out important democratic values for members of parliament, such as serving the public interest and integrity
- a broader code of conduct containing enforceable rules about issues such as managing conflicts of interest, personal conduct and using public resources
- changes to make the existing register of members' interests more effective
- better information, training and advice

for members of parliament about ethics, including the appointment of an independent ethics advisor

- a stronger system for dealing with alleged breaches of the code.

The Committee has recommended that the Victorian Government release an exposure draft of the proposed changes and consult further with the community and members of parliament. The Victorian Government has six months to table a response to the Committee's recommendations in the Parliament. The Committee's report is well-researched and comprehensive. When implemented it will make a very considerable improvement on current codes and practices. The report is however disappointing in two major respects, both to do with transparency:

- The report makes no provision for external scrutiny of the extent of compliance with the proposed code of conduct and register of interests. The Parliament itself retains this scrutinising function.
- In relation to public access to information on the proposed new register, the Report recommends that the newly renamed Privileges and Standards Com-

mittees of each House consider whether the register of interests should be published online (or in hard copy form only), and reach a conclusion which can be incorporated in the exposure draft of the new legislation. It would be unfortunate if the information contained in the register is not easily available to citizens online.

A copy of the Committee's report can be obtained from the Committee's website: <http://www.parliament.vic.gov.au/lawreform>



Source: TI Vanuatu

PNG: Government Fails to Meet Anti-Corruption Expectations

Papua New Guinea

Source: TIPNG Press Release

Transparency International PNG (TIPNG) is disgusted at the collapse of the government's financial management systems and the PAC reports clearly show a complete lack of accountability within the public service. TIPNG says that it is very sad to learn from the Public Accounts Committee (PAC) that, from the 1,000 enquiries carried out by the PAC into the operations of various government agencies, hospital boards, and trust accounts most have not complied with lawful requirements.

TIPNG says the government must wakeup, the PAC has sounded the alarm bells and the NEC must address this situation as the highest priority. We understand the various PAC reports have been sitting with the NEC gathering dust, if this is true then this is indeed an indictment on the members of the NEC. TIPNG says it is totally unacceptable that government, and particularly the National Executive Council, turn a blind eye to reports submitted by the PAC. From the point of view of the people when Government does not bother to respond to

theft and malpractice it becomes an accomplice of those who are stealing and misusing the peoples' resources. This state of affairs suggests the government has no respect for the people it is sworn to serve and is certainly not serious about ensuring that proper procedures and regulations, particularly the Financial Management Act are adhered to by all agencies in a transparent manner. TIPNG is also shocked to see the statement from the PAC indicating that a report submitted to the Government on the state of affairs of the Department of Lands & Physical Planning was never given consideration. TIPNG says such lack of action by the government continues to feed and encourage more unlawful practices translating into non delivery of goods and services to ordinary Papua New Guineans. The PAC reports and the statement issued yesterday must resonate with the key people in Government that we are heading on a dangerous path. In the words of the PAC member and Governor Mal Kela-Smith the loss of public funds as a result of corruption could be as high as 3 Billion kina. Consider what this means to us as a Nation, if these corrupt networks are able to

steal 3 Billion kina of public monies within our current economic levels, how much more are they likely to steal when the revenues for the LNG start flowing, if we do not take firm and decisive action to fix our government systems. Meanwhile TIPNG commends the five best performing government organisations over the last five years. They are the Bank of PNG, the Institute of Public Administration, Goroka & Alotau Hospital Boards and Post PNG. TIPNG commends these organisations that have managed to fulfil fiscal management requirements under the Public Finance Management Act and encourages their managers and staff to keep up the good work. TIPNG says there is a desperate need for more organisations to follow the example of these organisations to ensure goods and services are delivered to the people. TPNG also extends thanks to the PAC for delivering its report and highlighting both the good and bad in public service accountability. TIPNG believes that the PAC is a vital arm of government oversight, and says it should be strongly supported in its work.



International Voices on Corruption

Normally, this section concentrates on a specific international issue or news item. However, behind all of these issues are everyday individuals who are constantly dealing with the effects of corruption either directly or indirectly. This article focuses on these people and what they have to say regarding what corruption means to them. After trawling through the internet one realises that unfortunately not many ordinary people have a lot to say on corruption. When compared to other social issues, such as globalisation or climate change, corruption does not attract many comments from global internet users. Perhaps this is because corruption a complex concept. Its affects are varied and it is difficult for many to realise the causal relationship that exists between corruption and other issues.

Over the last decade or so the anti-corruption movement has been gathering momentum and is now a hot topic with politicians and legislators. However, based on the lack of internet interest it attracts, corruption may be missing the grassroots impact which is key to the long-term success of the anti-corruption movement.

Interestingly those from Africa and India seem to be the most prolific voices on the web in regards to corruption and also seem to be the group that is best able to understand the consequences of corruption.

Despite the relatively low level of internet comment the comments that are posted provide good insight into how people perceive corruption and to what extent many see it as a problem that has no possible solution.

The following are a selection of the most interesting points that people have made on the web.

General comments regarding corruption in Africa:

I think corruption in most African countries takes place within the civil service. Civil servants are poorly paid and are forced to subsidise their income through corruption.

Hellen Kerali, Uganda/USA

I don't care who you are or what part of Africa you come from, but the truth

is you are either corrupt or have been involved in a number of corrupt practises! Corruption is part of African culture, it's a way of life. You have to give something if you want things to go your way. It's a way of saying thank you!

K! Ondiwani, Togo

Corruption is not only found in Africa but also in the so called developed countries. You see corruption in the police forces, immigration and customs. These countries don't take bribes from individuals but from big corporations. Give Africa a break.

Jennifer Boadi-Amponim, UK

I believe corruption is as deadly as the AIDS virus and should therefore be seen as such. Millions of Africans today live below the poverty line because of the canker of corruption.

Osabutey Anny, Ghana

The following comments are in response to a short article detailing the story of a young Brazilian bank worker called Paulo who was the victim of corruption on two separate occasions. You can read the full article at:

<http://www.brazzil.com/component/content/article/212-january-2010/10342-of-rain-and-injustice-and-corruption-and-quiet-resignation-in-brazil.html>

Sometime ago, I was reading the comment of a senior citizen under a news report about corruption. He said the following:

"I am 75 years old and all through my life I was honest and hardworking. Never ever follow my example!"

João da Silva, January 24, 2010

Corruption is . . .

The friend of the elitists in Brazil and every nation on the planet, and it is the enemy of every working family. It isn't Brazil that is corrupt, nor is it the U.S., Britain, China, Haiti, or any other state. It is those who are in control of the money everywhere, and often these elitists are able to practice their trade in more than one country.

Corruption is a profession as much as

plumbing is a profession. Many of these elitists have never done an honest days work in their lives. What's the difference between a dishonest lawyer and a street con? In the end, I believe there is none. Both will suffer exactly the same fate, and this is one of the few things in life which brings me great satisfaction. Of course, such satisfaction does nothing to relieve the suffering of the victims, but some have dedicated all of their resources and efforts towards helping those in need. I can't remember where I read it, but someone once said, "God does not punish one for being born poor or with low intelligence." Only the rich practice such discrimination. And the middle class, who has the power to band together and stop such things, do nothing. To accept corruption, when you have the power to stop it, is complicity.

Capnamerca, January 26, 2010



Protesters in Kenya following the reinstatement of two ministers accused of corruption. Earlier this month



Suggestion box in South Africa

Links & Papers of Interest



<http://www.facebook.com/group.php?v=wall&ref=share&gid=36870072411>

The United Nations Office on Drugs and Crime (UNODC) has created a facebook page as part of their International Anti-corruption day campaign. So if you are facebook connected it is an extremely worthwhile group to join. Not only will you be helping to raise awareness for the Anti-corruption movement but you can also find some very interesting tid bits about various UNODC activities, competitions and corruption news.



<http://www.anticorruptionforum.org.uk>

The U.K Anti-Corruption Forum is a voluntary association including both civil society (including Transparency International's U.K chapter) as well as corporations working within the infrastructure, construction and engineering sectors whose objective is "to help create a business environment that is free from corruption." The site includes papers published by the forum such as "Preventing Corruption on Construction Projects - Risk Assessment and Proposed Actions for Funders". Although, not the most elaborate webpage nor the most up to date it does have some useful Anti-corruption links and resources.



http://www.oecd.org/pages/0,3417,en_34982156_34982385_1_1_1_1_1_1_100.html

The Asian Development Bank's Anti-corruption initiative for Asia-Pacific of which 28 countries are now members and endorse the group's Anti-Corruption Action Plan agreed upon in November 2001. Interestingly though, out of the 28 countries New Zealand is not a member. The "country resources" section of the page (which you can access via the contents on the left hand side) is an interesting read, as each member country has committed itself to a particular area in need of reform, highlighting that all countries have areas which are in need of improvement.