

Chapter 7

Public Sector Financial Crime and Corruption: The Case of Australia

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ABSTRACT

This chapter draws from Australian case studies to explore experiences of, and responses to, financial crime and corruption in public sector organizations. The chapter commences with a discussion of the public sector crime and corruption landscape in Australia before moving on to explore the integrity frameworks that have been established as a bulwark against these activities. Covering criminal and corrupt acts across local, state, and national levels of government, each case study includes a detailed description of the organizational context, key incidents, and history before exploring the responses to and consequences of the criminal or corrupt activity under study. Key findings from each case are identified, compared, and contrasted to understand the enabling factors, commonalities between, responses to, and outcomes. The chapter concludes by distilling transferrable learning across jurisdictions and organizations.

INTRODUCTION

Public trust in government and political institutions sits at the heart of functioning democracies (Warren, 2004; Pellegatta & Memoli, 2016). This trust is eroded when democratic processes and public institutions are perverted by the undue influence of vested private interests, and when those working in or around government place their personal interests over the interests of the broader community. There are myriad examples of politicians and those working in the public service engaging in behaviors ranging from outright criminal to grey activities that, whilst arguably not illegal, nonetheless contribute to public

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trust deficits (Prenzler *et al.*, 2018). Such behaviors can manifest in all types and at all levels of government and wherever it occurs the outcomes are nominally the same: a loss of faith in public institutions and weakened democracies (dela Rama, Lester, & Staples, 2022). The most serious of these corrosive behaviors can be broadly captured under the umbrella of corruption.

It has been argued that the ways corruption manifests in the public service in more affluent countries may differ from less affluent ones (Graycar, 2016, 2020). Corruption risk factors influence, and are influenced by, the behavior of both elected officials (politicians) and appointed public officials (public servants). Risk factors can include the level of external oversight, internal organizational controls, as well as broader community culture and values (Van Der Wal, Graycar, & Kelly, 2016; CCCQ, 2021). Common corrupt practices within public service environments of developing countries include abuses of power and privileged information, bribery, collusion with business interests, conflicts of interest, embezzlement, extortion, favoritism and nepotism, fraud, influence peddling, insider trading, procurement contract and bid-rigging (Desta, 2019). The underlying causes of corruption in this context are associated with a combination of structural, institutional, social and individual economic issues (Meyer-Sahling, Mikelsen & Schuster, 2018). These pressures include the need to engage in corruption to meet needs due to low pay, uncertainty as to what constitutes corrupt behavior, and kinship pressures (Prasad, Martins da Silva & Nickow, 2019). Factors such as the politicization of the public service, weak enforcement mechanisms, and a lack of commitment to accountability and transparency also exacerbate the problem (Desta, 2019). Consequently, corruption in poorer countries is often more overt (Graycar & Monaghan, 2015) and public service recruitment and promotion decisions are positively related to corruption, collusion, and nepotism (Ali, 2019).

Until the late 1960s corruption was considered a pathology of developing countries. It is now acknowledged, however, that no nation is exempt from public service corruption (Navot, Reingewertz, & Cohen, 2016), and that there are subtle differences in the way corruption manifests in different contexts. In more affluent countries, although central behaviors such as the misuse of information and cronyism for personal benefit (Graycar & Monaghan, 2015), are similar, corruption in this context is likely to be less overt. Bribery and kleptocracy are relatively rare in more affluent countries (Graycar, 2020), although not unheard of, as the recent Trump administration in the United States has demonstrated. With that said, the purchase of access to decision-making and failures to appropriately manage conflicts of interest are far more common in affluent countries (Graycar, 2020). It is critical that, regardless of the country, those working in and around the public service are attentive to corruption risk factors and understand what can be done to build effective systems and cultures that are resistant to facilitating wrongdoing. It is also vital that such systems are culturally and contextually specific as systems that are effective in one country may not be effectively transplanted to another.

Although systems are not easily transplantable between countries, there are lessons that can be learned regardless of where wrongdoing has occurred. This chapter seeks to understand the enabling factors of, commonalities between, responses to, and investigative outcomes of a selection of large-scale and high-profile public sector frauds that have occurred in Australia over the last twenty years. These frauds span all levels or tiers of the Australian Government, namely the local, state, and federal jurisdictions. Australia has traditionally been perceived as being relatively free of corruption, in large part due to its comparatively mature anti-corruption policies, frameworks, and institutions (Bowman & Gilligan, 2007). However, despite its reputation for integrity in its public institutions, sovereign corruption risks remain. This is evidenced by numerous high-profile instances of corruption being detected by anti-corruption and other oversight bodies (exemplars of which are detailed in this chapter) as well as the country's

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