

Plan for Implementation of Recommendations

Investigation into corrupt conduct of Sydney Water employees and others (Operation Siren)

Recommendation 1.

That Sydney Water ensures staff in identified risk areas of operational and/or fraud risk are subject to intrusive supervision.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

To inform the conduct of corruption and fraud risk assessments, senior managers are required to identify functions and processes where there is or has been:

- *Flows of money or money equivalent*
- *Dealing with third parties*
- *Past corruption incidents*
- *split supervision arrangements*

Corruption and fraud risk assessments for the divisions are underway and scheduled for completion by 30 June 2012. General Managers and their senior managers are accountable for identifying existing and proposed controls that mitigate corruption and fraud risks as set out in the Quick Guide to Controls for Mitigating Risks. The Risk Management Policy and Quick Guide has been amended to ensure that risk owners consider intrusive supervisory requirements for high- risk areas for corruption and fraud risk. All General Managers are required to report to the Managing Director by end of August 2011 on their high risk areas and show how intrusive supervision has been applied or will be applied

Supporting material

- *Risk Management Policy*
- *A Quick Guide to Controls for Mitigating Risks*
- *Corruption and fraud risk assessments for Maintenance and Corporate Services Divisions*

Proposed evaluation methods

- *Internal Audit reviews of corruption and fraud risk assessments*
- *Management assurance from General Managers to Managing Director that intrusive supervision is in place in identified high risk areas*

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Recommendation 2.

That Sydney Water provides training to its managers in relation to:

- overseeing subordinates' interactions with external parties, including reviewing files
- detecting and acting upon warning signs that their subordinates may be behaving improperly.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report
- Implemented in an alternative way**
- Partially implemented
- Not implemented

Action proposed

The Leadership Framework has been developed and rollout for training of the top five levels of management is scheduled for completion by 31 December 2011. Other managers will be trained in the following six months. Managers, supervisors and staff will understand the accountabilities and authorities of their respective roles. The Framework also sets the expected key behaviours that are to be demonstrated and the requirements to follow the organisation's authorised policies and procedures. All staff are assessed annually against the behaviours of honesty, teamwork, achievement driven and personal responsibility.

Key behaviours being specifically required include honesty and probity, overseeing/reviewing key files/work, managing risk, preventing corruption, oversight of contracts, compliance with policies such as gifts policy.

Supporting material

- *Changed policies for create a role, select, induct, assess, reward and develop*
- *Managers Guide*
- *Manager competency program*
- *Training records*

Proposed evaluation methods

A baseline measure in the annual staff survey has already been taken for managerial leadership.

Management/staff awareness of corruption prevention based on survey questions:

- *The process for making a complaint of possible corruption in Sydney Water is clear*
- *I know what to do if a gift is offered to me in the course of my work*

- *I understand Sydney Water's requirements to act ethically*
- *I am not aware of any corruption in my work area*
- *I understand my responsibilities for preventing corruption in Sydney Water*

A target for improvement has been set and it will be measured in June 2012.

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Recommendation 3.

That Sydney Water reviews its organisational structure to identify and remedy other situations where supervisory arrangements are split or unclear.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

The Leadership Framework includes processes to review the organisation structure and role accountabilities (see recommendation 2). Specific workshops in organisational design will be run for the Executive General Managers in November 2011.

Any identified 'split' arrangements or unclear accountabilities will be clarified in writing to ensure that accountabilities for managing business risks are clearly and formally designated and accepted

See also response to recommendation 1.

Supporting material

- *Training records*
- *A guide with principles for organisational design will be created (this may be included in the Managers Guide)*

Proposed evaluation methods

- *Training completed*
- *Risk accountabilities formally designated and accepted by the General Managers*

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Recommendation 4.

That Sydney Water revises its procurement processes to ensure that one individual cannot request, approve and certify delivery of a purchase.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

An additional approval step now forms part of the procurement process. Purchase orders for professional service engagements valued at less than \$100,000 are now work flowed to an 'approver 1' in Accounts payable before being work flowed for approval by an 'approver 2' (this is the delegated authority holder for the expenditure)

A system upgrade stops the 'buyer' being the 'approver' and 'receptor'. Past instances of a 'creator' and 'approver' being the same person are detected as part of suspicious transaction analysis.

Supporting material

- *A program enhancement was made to Peoplesoft to enable the new procedure ('additional approval step') to occur*
- *IT work request (4674) for FMIS system upgrade ('buyer, approver, receptor')*
- *Suspicious Transaction Analysis test criteria, results and, if applicable, management follow up and action*

Proposed evaluation methods

- *Two external reviews have been carried out and the procedure ('additional approval step') is performing as per design specification*
- *FMIS upgrade evaluated in test environment*
- *Review of Suspicious Transaction Analysis report by Manager Shared Services, GM Corporate affairs and Manager Internal Audit*

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Recommendation 5.

That Sydney Water ensures that managers are accountable for their subordinates' use of delegation.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

A full review of the Delegations Manual is complete. The Manual holds officers accountable for their actions to the limits of their delegation.

General Managers are responsible for determining the nature and extent of delegations required within their respective divisions. Annually they are required to review and endorse the delegations within their divisions.

Managers can review their subordinates' expenditure approvals through 'Business Intelligence' reporting. Use of these reports is monitored and reported quarterly to all General Managers.

Supporting material

Annual sign-off by General Managers and Managing Director

Proposed evaluation methods

- *Reporting provided to Delegations Manual Steering Committee*
- *Presentation to Executive on Delegations review objectives including rollout and communications strategy*

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Recommendation 6.

That Sydney Water develops an automated process to check invoices for order splitting.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Sydney Water implemented in-house Suspicious Transaction Analysis testing in November 2010. Order splitting forms part of the testing. Any suspicious transactions are referred to the respective General Manager and Internal Audit. The testing program has expanded from the original 21 tests recommended in the PriceWaterhouseCoopers review to 37. The expanded program includes testing of cumulative vendor payments greater than \$100,000 by the same authoriser, in the same department, with no contract in place. This is the key test referred to in the ICAC's report that could not be performed by PriceWaterhouseCoopers due to date being unavailable at the time of the review.

Supporting material

- *Detailed Suspicious Transaction Analysis test criteria and results and, if applicable, subsequent management follow-up and action*

Proposed evaluation methods

- *Inclusion of invoice splitting related Suspicious Transaction Analysis in the quarterly Suspicious Transaction Analysis reports to Manager Shared Services, General Manager Corporate Services and Manager Audit*

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Recommendation 7.

That Sydney Water:

- reviews the information in its financial databases to ensure that it is accurate
- modifies its financial management system to allow for vendor details on invoices to be compared automatically with the corresponding details in its vendor database
- establishes processes to maintain the accuracy of the information in its vendor database.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Since November 2010 any changes to the vendor database require supporting information and are work flowed to a senior manager in Accounts Payable. This approval is mandatory before the vendor is activated in the Financial Management Information System (FMIS).

The ABN field is now mandatory in the set up of vendors. 95% of all invoices are scanned through the Readsoft scanning system and automatically matched with the vendor database via matching of the ABN number on the invoice.

All vendors with no activity greater than 12 months are 'closed' within FMIS. As part of the vendor due diligence testing in the Suspicious Transactions Analysis program, vendor records are being reviewed within FMIS in at least quarterly cycles. Specific tests include:

- *Vendor ABNs that do not comply with the ASIC algorithm*
- *Vendors with no ABN details in FMIS*
- *Vendors sharing the same ABN, bank accounts, address details or phone numbers*

Supporting material

- *IT work request 4630 that made the ABN fields mandatory for all vendors*

Proposed evaluation methods

- *ABN validation evaluated in a 'test FMIS environment to ensure the work request was actioned as per specifications*
- *Quarterly reviews of the vendor database and invoice details – track and follow up trends in anomalies*

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Recommendation 8.

That Sydney Water:

- develops a list of manual checks that accounts staff should perform on invoices and communicates it to them
- reviews invoices on a sample basis to ensure that these checks have been performed
- ensures that accounts staff are fully aware of the risk of fraud.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

An accounts payable invoice/payments checklist was posted on the Sydney Water intranet on 24 November 2010. The checklist was also given to each Accounts Payable staff member. Scanned invoices are checked daily on a sample basis.

PriceWaterhouseCoopers provided fraud awareness training to all Accounts Payable staff in June 2010.

Three Accounts Payable managers attended ICAC's 'Corruption Prevention for Managers' in October 2010. Nine Accounts payable processing staff attended ICAC's 'Corruption Prevention for Procurement Officers' in October 2010. A further two staff members received training in the August 2011 ICAC sessions. The remaining five Accounts Payable processing staff will be scheduled to attend the next training session (held approximately every six months).

Periodic suspicious transactions analysis is being carried out and a full time person is dedicated to this role.

Supporting material

- *Training log of staff that attended ICAC Corruption Prevention for Managers Seminars*
- *ICAC training material provided during seminars*

Proposed evaluation methods

- *Accounts Payable Team Leaders and Accounts Payable Manager will independently review any transactions that staff consider to be of high risk (as identified from the training seminars such as error invoices/rejected invoices)*
- *Accounts Payable Manager monitored attendance of the ICAC seminars*
- *Accounts payable/invoice payment checklist*

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Recommendation 9.

That Sydney Water applies more rigour to its complaint assessments and investigation practices to ensure decisions are appropriate and verified by an appropriate quality assurance process.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Ernst & Young reviewed Internal Audit's Investigations Manual in November 2010. Deloitte Touche Tohmatsu reviewed the complaints system in February 2011. Deloitte Touche Tohmatsu developed Investigations Guidelines in June 2011

An Assessment report is prepared for all complaints received and reviewed by the Manager Internal Audit. Sydney Water's Corporate Secretary independently checks Internal Audit's complaint assessments as to whether to proceed with investigations.

Investigation plans and reports are reviewed and approved by the Manager Internal Audit.

Supporting material

- *complaints handling procedures*
- *complaints database*
- *assessment reports*
- *investigation guidelines*
- *investigation plans, investigation reports*

Proposed evaluation methods

Independent review of complaint assessments and investigation practices

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Recommendation 10.

That Sydney Water develops a dedicated complaint management area and associated systems to manage complaints about employees from receipt to completion and record any action for future corporate information.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Internal Audit is responsible for complaints handling and has established a complaints database and complaints handling procedure. These were externally reviewed by Deloitte in February 2011. All complaint assessments are independently reviewed and signed off by the Corporate Secretary.

Supporting material

- *complaints handling procedures*
- *complaints database*
- *assessment procedures*
- *assessment reports*

Proposed evaluation methods

Independent review of complaints handling practices

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Recommendation 11.

That managers and supervisors at Sydney Water, as well as staff performing roles that require interaction with the public or external contractors/plumbers, be given training on how to deal with complaints about Sydney Water employees.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Staff informed that all complaints are directed to Internal Audit.

Staff education is ongoing and includes:

- *Quarterly IntegrityNews*
- *Presentations by the Managing Director*
- *Face to face training*
- *Annual online corruption training*

Managers, supervisors and staff will know that on receipt of complaints (that get referred to Internal Audit) they are responsible for confidentiality, no accusations, no reprisals, not alerting the subject of the complaint, supporting any enquiries by Internal Audit.

Staff in Internal Audit have been trained in reporting requirements under Sect 11 of the ICAC Act.

Supporting material

- *Ethics, Fraud and Corruption presentations*
- *attendance records*
- *Integrity Newsletter*

Proposed evaluation methods

- *Annual 'Your Say' staff survey – questions dealing with fraud and corruption*

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Recommendation 12.

That access to the Corruption Hotline be extended to the public by providing an intuitive access point on the Sydney Water website home page.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

A 'Corruption Hotline' link is on the home page of Sydney Water's website. The link provides information on business ethics and reporting corruption via the 24 hour free call number.

Supporting material

Relevant website page

Proposed evaluation methods

Corruption Hotline reports from the public

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Recommendation 13.

That the Sydney Water Code of Conduct be amended to include advice, warning against taking reprisal action against other employees or contractors for making a complaint.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

The Working at Sydney Water guide will be revised no later than 31 October 2011 to include advice about taking detrimental action against someone making a protected disclosure. (see recommendation 18)

Supporting material

Code of Conduct booklet

Proposed evaluation methods

Code of Conduct issued

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Recommendation 14.

That upon commencement of the *Protected Disclosures Amendment (Public Interest Disclosures) Act 2010*, and at regular and appropriate intervals thereafter, Sydney Water contractors be advised of their rights under the Protected Disclosures Act and the process of making a protected disclosure.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report
- Implemented in an alternative way**
- Partially implemented
- Not implemented

Action proposed

From 1 July 2011 'individual contractors' are included in the Act's definition of a public official who can make a protected disclosure. This excludes individual contractors who operate as a business (such as sole trader or company). Given this narrow coverage, Sydney Water will voluntarily treat a report from this type of individual contractor as if it is a protected disclosure. Letters to identified individual contractors issued from July 2011.

Given that Sydney Water's vendor database cannot readily identify this type of contractor Sydney Water's contract shells have been amended to include advice that individual contractors can make a disclosure. This aims to capture all future engagements of individual contractors.

In addition, advice has been included in site inductions for contractors visiting Sydney Water's wastewater treatment plants, water recycling plants and water filtration plants as well as its laboratory site at West Ryde and Potts Hill site

Supporting material

- *Advisory letters to individual contractors*
- *contract shells*
- *site induction insert on protected disclosures.*

Proposed evaluation methods

Monitor legislation for amendments that might lead to additional coverage for contractors

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Recommendation 15.

That Internal Audit includes in its audit plan evaluation of the implementation and operation of divisional corruption prevention plans derived from the current risk assessment workshops.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Internal Audit is independently reviewing all key mitigating controls to emerge from divisional fraud risk assessments. Independent divisional audits are in progress with two recently completed (Maintenance and Corporate Services divisions) and Community and Customer Relations Division about to commence. All divisions scheduled for completion before end June 2012.

Supporting material

- *Reports, including management responses to recommendations.*

Proposed evaluation methods

- *Independent Audit to assess the appropriateness and effectiveness of key controls to mitigate divisional corruption/fraud risks.*
- *Tracking of accepted recommendations from divisional corruption/fraud risks control audits*

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Recommendation 16.

That Sydney Water develops a strategy to capture and champion best practice that is identified in the course of its operations. This is to include:

- ensuring its strategic business plans provide for the integration of corruption prevention strategies
- utilising its business risk registers to formulate corruption prevention strategies to be centrally managed.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Internal Audit and Corporate Risk Management meet with a standing agenda to discuss corruption and fraud issues, prevention strategies and the status of risk assessments.

Internal Audit independently reviews risk assessments to evaluate control effectiveness, identify non-conformances and recommend improvements. As part of these reviews, Internal Audit identifies best practice controls that can be considered for implementation within business units.

The Corporate Plan for 2010/11 included the action: "Continue implementing the fraud Prevention Program with increased emphasis on the Contract Management and Civil delivery areas". In 2010 quarterly reporting of progress in implementing the Corporate Plan included progress against this action

A process has been established for reviewing procurement strategies for ongoing service contracts. The review produces a report ('pink slip') in a set format that includes commentary on fraud risk and any actions required. Currently targeting contracts valued at more than \$5 million but will be expanded in 2011-12 to all ongoing service contracts.

The Corporate Strategic Plan for 2011-2016 includes a corporate initiative on corruption prevention to ensure that corruption prevention is driven through our values of honesty and personal responsibility and the implementation of the Corruption Prevention Strategy through the Corruption Prevention Program.

Supporting material

- *Standing agenda and minutes of Corruption Prevention Committee meetings*
- *Corporate Strategic Plan for 2011-16*
- *Corruption Prevention Strategy*
- *Corruption Prevention Program*

Proposed evaluation methods

- *Actions resulting from Corruption Prevention Committee meetings completed on time*
- *Performance and development planning process*
- *'Pink slip' review*

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Recommendation 17.

That Internal Audit continues its actions to strengthen communication with contractors through face-to-face presentations on ethical obligations.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report**
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Sydney Water has presented to Water Servicing Coordinators, suppliers and third parties including the Master Plumbers Association about business ethics, corruption and how to report it. Presentations will be ongoing.

Sydney Water has implemented a requirement that all Water Servicing Coordinators sign a declaration confirming this.

Sydney Water's former Managing Director wrote to 567 contractors at the end of July advising them of Sydney Water's expectations and their role in reporting corruption

Supporting material

Presentation material

Proposed evaluation methods

Completion of feedback form by attendees at presentations and post presentation follow up of sample group of attendees by mail

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Recommendation 18.

That Sydney Water recasts *Working at Sydney Water* as the Code of Conduct and expressly prohibits the acceptance of money with regard to gifts and benefits.

Summary of response

The recommendation will be:

<check one>

- Implemented as described in the report
- Implemented in an alternative way**
- Partially implemented
- Not implemented

Action proposed

A separate code of conduct booklet will be included in the 'Working at Sydney Water' guide. Working at Sydney Water is a 'welcome aboard' document and it includes behaviours (honesty, teamwork, personal responsibility and achievement driven) and expectations about behaviour. The guide's message will be reinforced with a dedicated Code of Conduct inset. The code of conduct booklet is scheduled for delivery by 31 October 2011.

Supporting material

Code of Conduct booklet

Proposed evaluation methods

Code of Conduct issued