

12 Month Progress Report

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Corruption and fraud risk assessments are complete for Maintenance, Corporate Services, Customer and Community Relations, Asset Management, Asset Solutions, Sustainability, and Finance & Regulatory divisions. Operations division will be completed by March 2012. People, Leadership and Culture division and the Office of Managing Director are scheduled for early June 2012. A 'refresh' of Maintenance Division's fraud risk assessment will be completed in March 2012

General Managers reported to the Managing Director in September 2011 on intrusive supervision controls within their divisions.

Supporting material

- *Risk Management Policy*
- *A Quick Guide to Controls for Mitigating Risks*
- *Corruption and fraud risk assessments for Maintenance, Corporate Services, Customer and Community Relations, Asset Management, Asset Solutions, Sustainability, and Finance & Regulatory divisions.*
- *Divisional responses to Managing Director on intrusive supervision controls*

Evaluation of implementation (Progress update)

- *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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

The Leadership Framework is being deployed. 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. The Executive and Level 3 and Level 4 managers have completed the Leadership Framework. Training for lower level managers and supervisors is underway with a target date for completion of 30 June 2012. Action will be ongoing as there will be a continuing need for training new staff.

Specific behaviours covering oversight of subordinates' interactions with external parties and detecting and acting on warning signs of improper behaviour will form part of the 2012 Fraud and Corruption Prevention eLearning module. Deployment scheduled for April/May 2012. These behaviours also referenced in November 2011 Quarterly Integrity Update and November 2011 Manager eNews.

Supporting material

- *Changed policies for create a role, select, induct, assess, reward and develop*
- *Managers Guide(to be released in May/June 2012)*
- *Manager competency program*
- *Training records*
- *November 2011 Quarterly Integrity Update*
- *November 2011 Manager eNews.*

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

The leadership Framework includes processes to review the organisation structure and role accountabilities. Specific workshops in organisational design were held for General Managers in November 2011.

In January/February 2012 General Managers reported on their respective business functions regarding any split arrangements or unclear accountabilities and action to be taken. Any restructure of divisions resulting from the organisational reform announced in February 2012 will clarify accountabilities and avoid split supervisory arrangement. This will, however, take time to flow down the organisation. It is expected that for most divisions the new structure will flow down to Level 3 and 4 managers by 30 June 2012. This will flow down the rest of the organisation by 31 December 2012.

Supporting material

- *Training records*
- *A guide with principles for organisational design*
- *General Managers' responses on split supervision/unclear accountabilities (file 2012/00006A)*

Evaluation of implementation (Progress update)

- *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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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.

These actions were independently reviewed and as at February 2012 were found to be implemented.

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*

Evaluation of implementation (Progress update)

- 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 Services 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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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.

These actions were independently reviewed and as at February 2012 were found to be implemented.

The next review of delegations to start in May 2012 with General Manager sign-off required by early June 2012. Internal Audit will review all changes in the manual prior to submission to Managing Director for final approval.

Supporting material

- *Annual sign-off by General Managers and Managing Director*
- *Audit review*

Evaluation of implementation (Progress update)

- *Reporting provided to Delegations Manual Steering Committee*

- *A presentation was made to both the Sydney Water Executive and the Audit and Risk Committee on the 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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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 data being unavailable at the time of the review.

These actions were independently reviewed and as at February 2012 were found to be implemented.

Supporting material

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

Evaluation of implementation (Progress update)

- *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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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 setup 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*

These actions were independently reviewed and as at February 2012 were found to be implemented.

Supporting material

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

Evaluation of implementation (Progress update)

- *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 progress

<complete one of the following>

- Implementation has not yet started
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Action taken to implement recommendation

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 Procurement 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 and fifteen other staff, with a connection to the procurement/payables/receivables process, received training in September 2011.

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

These actions were independently reviewed and as at February 2012 were found to be implemented.

The acting Manager Shared Services and Process Driver – Compliance attended the ICAC's Corruption Prevention for Managers training in March 2012

Supporting material

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

Evaluation of implementation (Progress update)

- *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)*
- *All Accounts payable staff have completed ICAC training. The training was also provided to key staff across the business involved in either procurement, payables or receivables processes.*
- *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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
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- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Ernst & Young reviewed Internal Audit's Investigations Manual in November 2010. Subsequently, Deloitte Touche Tohmatsu developed Investigations Guidelines in June 2011. Deloitte Touche Tohmatsu reviewed the complaints recording system in February 2011 and provided some suggestions for improvement.

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. On-going discussion occurs with the Manager Internal Audit during the course of an investigation. These actions were independently reviewed and as at February 2012 were found to be implemented.

Supporting material

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

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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.

These actions were independently reviewed and as at February 2012 were found to be implemented.

Supporting material

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

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Dealing with complaints about Sydney Water employees will form part of the 2012 Fraud and Corruption Prevention eLearning module. Deployment scheduled for April 2012. This is also referenced in face to face staff awareness sessions and in November 2011 Quarterly Integrity Update.

ICAC sect 11 requirements training held in November 2011 for new Internal Audit staff and Internal Audit staff not directly involved in investigations.

Supporting material

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

Evaluation of implementation (Progress update)

- *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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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.

This action was independently reviewed and as at February 2012 found to be implemented.

As part of Sydney Water's website redesign project the corruption hotline link will be placed in the footer of every page in the website.

Supporting material

Relevant website page

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Code of Conduct issued in October 2011 and includes advice that Sydney Water does not tolerate reprisal action against anyone who reports wrongdoing.

This action was independently reviewed and as at February 2012 found to be implemented.

Supporting material

Relevant page from Code of Conduct booklet

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

From 1 July 2011 individuals engaged as contractors are included in the Act's definition of a public official who can make a public interest 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 public interest disclosure. Letters to identified individual contractors were issued from July 2011.

Given that Sydney Water's vendor database cannot readily identify this type of contractor Sydney Water's contract shells and letter of engagement 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

These actions were independently reviewed and as at February 2012 were found to be implemented.

Supporting material

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

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Internal Audit is independently reviewing all key mitigating controls to emerge from divisional fraud risk assessments. Reviews complete for Maintenance, Corporate Services, Customer and Community Relations, and Asset Management divisions.

All divisions scheduled for completion before end June 2012.

Supporting material

- *Reports, including management responses to recommendations.*

Evaluation of implementation (Progress update)

- *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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

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.

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 Sydney Water's 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*

Evaluation of implementation (Progress update)

- **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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Five 'developer works' seminars on 'Doing Business with Sydney Water' held over October and December 2011 for key people from Sydney Water-accredited providers for developer work. Presentation on corruption prevention program to Business Customer forum (trade waste industry representatives) held on 30 November 2011.

Presentation on 'Doing Business with Sydney Water' to contract meter readers held in September 2011. Presentation on 'Doing Business with Sydney Water' to plumbers' seminar held in mid-October 2011.

On 6 March 2012 Water Services Coordinator Representatives were advised that all Water Services Coordinators will be required to sign a business ethics declaration annually.

Supporting material

Presentation material

Evaluation of implementation (Progress update)

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 progress

<complete one of the following>

- Implementation has not yet started
- The recommendation has been implemented
- The recommendation will be implemented differently
- The recommendation is no longer relevant
- The recommendation is partially implemented

Action taken to implement recommendation

Code of Conduct issued in October 2011 as a temporary action and includes advice that staff must never accept money.

This action was independently reviewed and as at February 2012 found to be implemented.

A new 'Working at Sydney Water' will be issued to all staff in April with the above code incorporated in it

Supporting material

Relevant page from Code of Conduct booklet

Evaluation of implementation (Progress update)

Code of Conduct issued