

APSAC Conference 2011

Both Sides of the Fence – Case study – Sydney Water Corporation

Corruption Prevention in an investigation

The following information is a summary of the key corruption prevention issues, findings and recommendations stemming from the investigation into corruption at Sydney Water Corporation by the Corruption Prevention Division of ICAC.

Supervision of Inspection staff

Sydney Water Civil Delivery staff approving the work of contractors (plumbers) reported to their Civil Delivery supervisors in relation to their conduct and performance. However their inspection role was monitored and controlled by another area of Sydney Water known as the Urban Growth Unit. Inspectors such as John Buckley were given jobs by Urban Growth for a set geographical area of Sydney and at the completion of the job provided a certification of compliance. Mr Buckley alone determined when and where he went, for how long, and whether he needed to go back several times due to his assessment of non-compliance by the contractor.

Civil Delivery supervisors told the Commission that John Buckley was in a position of trust and required minimal supervision. Whilst trust will always be a component of functional supervisor/subordinate relationships, it should not become a substitute for monitoring and control. This has greater significance to the prevention of corruption when the role being supervised has delegated discretion in a statutory approval process: this was the case for Mr Buckley.

Supervision can also be impeded by a lack understanding of the work being performed by the subordinate. John Buckley's supervisors gave evidence that they had never performed or been given any training in his inspection work and as a result were not in a position to question what he was doing and commented that "John ran his own race". The Team Manager at Mr Buckley's depot stated that John didn't require supervision as it was a very skilled job. Accordingly no management strategies were put in place to offset the corruption risk attached to the lack of understanding of Mr Buckley's inspection role.

Over a number of years John Buckley's supervisors and managers in Civil Delivery, as well as those directing and reviewing his activities in the Urban

Growth Unit become aware of allegations and rumours that he was taking bribes. At the same time they accepted and normalised Mr Buckley's reputation for being pedantic in relation to his inspections and his greater propensity to issue corrective action notices to plumbers than any other inspector. Mr Buckley's simple denial on the couple of occasions the allegations were put to him by his line supervisors was enough to allay their concerns. There was no holistic consideration of his conduct and accordingly there were no activities or strategies put in place to address a risk of corruption that had manifested itself in a number of forms.

Risks identified in relation to inspection roles at Sydney Water

Inspection of plumbing was also the responsibility of another area known as PIAS within Sydney Water. This pool of inspectors approved the work of plumbers across Sydney and has a risk profile that was almost identical to Civil Delivery. The following list is a description of the key risks identified at Sydney Water for inspections across all areas:

- Unchecked use of discretion – despite allegations, industry reputation for strictness, and a high incidence of failure reports, there was no action taken to verify the appropriateness of John Buckley's use of discretion.
- Autonomy – Inspectors in both Civil Delivery and PIAS had high levels of autonomy that provided opportunities for corruption such as arranging their own appointments and in doing so were able to ensure their promptness for those who gave incentive payments.
- Industry culture – A number of witnesses described a culture within the plumbing industry of 'giving the inspector a drink'. As this was not acknowledged by Sydney Water there were no strategies to address it.
- Time is money – Rescheduling or delayed appointments have a flow on effect for the income of plumbers and many took the view that it was easier to hand over \$50 than return to a job.
- Victimization – most plumbers were fearful of making complaints about Sydney Water employees as they did not want to risk their livelihoods. Complaints made to Urban Growth Unit staff about John Buckley intentionally lacked detail and those making them did not want to put their name to a formal allegation.
- Defective water and sewerage infrastructure – hidden plumbing and drainage corruptly approved and potentially not meeting standards is a latent liability for Sydney Water and private property owners.

Sydney Water Governance and Risk Management

The public inquiry revealed a number of weaknesses in key governance activities across Sydney Water that could have reduced the risk of corruption by inspectors working at both Civil Delivery and PIAS.

The investigation found there was no visible risk activity at the business level across Sydney Water. Whilst a manager at PIAS took it upon herself to identify and treat a number of obvious risks upon taking up the role, other managers such as those in Civil Delivery and Urban Growth did not turn their minds to the corruption risks posed by their areas of operation. Internal Audit at Sydney Water was responsible for governance but remained focused on audit activities such as extensive data mining at the expense of driving robust risk management activities and programs. Sydney Water also failed to capture complaint information and have effective systems and practices to manage complaints made about Sydney Water staff. These deficiencies also denied Sydney Water of relevant corruption prevention information to inform programs, risk assessments and management decisions concerning staff such as John Buckley.

As described earlier a manager within the PIAS area put in place a process to identify and treat risks attached to the work performed by its inspectors. All of these risks and treatments had direct relevance for Civil Delivery inspection role however Sydney Water failed to identify the opportunity to leverage these reforms and a best practice opportunity went wanting. Some significance was attached to the discovery of a 1991 document created by the former Sydney Water Board during the investigation. The document identified risks for plumbing inspection services (now known as PIAS) with the information it contained remaining relevant to current inspection operations across Sydney Water. It is unclear how the content of this document and its purpose became lost to Sydney Water over time and it is in that regard that it demonstrates the need for ongoing vigilance by operational managers to incorporate risk management as part of their ongoing responsibilities.

Over several years Sydney Water has progressively embarked on a process of downsizing its workforce and outsourcing work to the private sector or to contractors. Changes such as these resulted in a new risk profile for Sydney Water as it remained responsible for approving and delivering work on Sydney's water and sewerage infrastructure. Many of the untreated risks discovered during the investigation were at least in part due to a failure to review the risk created by outsourcing and put in place treatments.

Recommendations

The following recommendations drawn from the report to parliament are those that relate to the matters contained in the presentation to APSAC. Delegates wanting to see the full corruption prevention report should refer to the Independent Commission Against Corruption website.

- Sydney Water ensures staff in identified areas of operational and/or fraud risk are subject to intrusive supervision.
- Sydney Water reviews its organisational structure to identify and remedy other situations where supervisory arrangements are split or unclear.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- That Internal Audit continues its actions to strengthen communication with contractors through face-to-face presentations on ethical obligations.