

## **“The Corporation’s Experience”**

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### **1. What happened?**

In March 2011, the Independent Commission Against Corruption (ICAC) released its report on and recommendations into a nine-month investigation (Operation Siren), into claims of corruption at Sydney Water.

The investigation covered a number of areas, including corruption among developer works inspectors and plumbing inspectors at Sydney Water and the adequacy of corruption prevention measures.

The developer works inspectors verify the adequacy of sewer and water reticulation works done by developers and their contractors for new housing and commercial developments. The inspectors are drawn from the large pool of sewer/water network maintenance staff in Sydney Water as needed.

On the other hand, the plumbing inspectors are specialist roles that certify that internal property plumbing and drainage works are compliant to the NSW Plumbing Code

In July 2009, Sydney Water’s Internal Audit referred an allegation to the ICAC concerning a developer works inspector demanding bribes. The ICAC commenced investigation and in mid 2010 announced an inquiry.

The ICAC found that two developer works inspectors were soliciting bribes from \$20 to over \$1,000, and in one case this had been happening for over a decade. Another developer works inspector had used Sydney Water resources to do connection work for a constructor ‘off the Sydney Water books’ so that he could be paid personally for the work.

The ICAC also found that two plumbing inspectors had been accepting cash from builders. It was found that another plumbing inspector was engaged in unauthorised secondary employment by charging plumbers for drafting sewer service diagrams for them, that was in clear conflict with his inspector duties.

All of these staff knew they were doing wrong. Sydney Water terminated the employment of three developer works inspectors and a plumbing inspector and disciplined another. One had also earlier resigned.

The inquiry highlighted various issues for us:

- Management and supervision of developer works inspectors and plumbing inspectors
- Loss of focus on corruption risk controls over time
- Weaknesses in organisation structure and systems, including outsourcing, that allows corruption opportunities to be exploited
- Obligations of external developers, contractors and Water Services Coordinators in fraud and corruption prevention
- Proactive approaches encouraging reporting on corruption and fraud, taking action in response to rumours, as well as facilitating best practice across the company
- Improvements in Internal Audit, eg introduction of complaints handling procedures and database.

## 2. The pain

As Sydney Water's Manager Group Audit, Jonathan Sesel said when giving evidence at the inquiry 'as painful as it was, it was the hearing we had to have and we are in a better place for it'.

However, Sydney Water did find it extremely difficult to deal with the uncertainty. The ICAC asked for a lot of information. We weren't sure what they were looking for, as they can't give you any context.

As it is an offence to hinder the investigation in any way we were instructed not to do anything, change anything or tell anyone. This was frustrating, as we knew we had an issue, which we could not fully address. We had to wait.

After the investigation the ICAC called a public inquiry. In calling the inquiry the ICAC initially used the words 'systemic corruption'. We were shocked at this approach. While we recognised there were weaknesses in some of our systems that some staff had exploited, we felt it wasn't organised or across Sydney Water.

Throughout the hearing and after the release of the ICAC report Sydney Water attracted about 150 media stories in the press, on radio and television.

It's fair to say that our staff were angry with the individuals who had damaged the organisation's reputation. It reflected on them and their strong allegiance to our mission.

There were also impacts on staff in the affected areas as the inference was that everyone in the area was corrupt. Many of the staff not involved in wrongdoing needed psychological help and support, particularly in the aftermath of the hearing.

## 3. The learnings

Naturally there were numerous learnings arising from the inquiry.

### 1. Embrace the intervention from the ICAC.

A strength in this process lies with the ICAC's ability to not only carry out the investigation, but to also work with organisations to bring about openness and corruption prevention reform in a broader context. Sydney Water stated to the inquiry that 'corrupt practices have been outed and Sydney Water is taking further steps, learning from these experiences, to develop more robust governance and fraud prevention in these areas'.

### 2. Be proactive.

We acknowledged and took our fraud and corruption prevention system weaknesses seriously. We took a number of proactive measures in regards to addressing the risks and deficiencies as they were identified. We didn't wait until the ICAC inquiry findings. Instead we put forward to ICAC a list of actions where we felt we could improve. Working with ICAC as part of the journey and not just in response to recommendations is how proper and engaged reform can best be achieved, embraced and sustained.

### 3. Test every allegation promptly, even if not formalised.

There was a misplaced view that suspicions and rumours of corruption are not to be taken further or reported without some firm written evidence. In fact there were rumours of wrongdoing by one developer works inspector back in the mid 1990s. Because there was no evidence of corruption Sydney Water managers treated the rumour as hearsay and did not investigate or report the alleged corruption to the ICAC.

4. **Report all issues to ICAC.**

Internal Audit received an allegation of corruption from a constructor's wife about this developer works inspector. She then decided not to pursue the matter. Though Internal Audit should have reported it to the ICAC they didn't

5. **Provide easy and independent access to report concerns of corruption.**

About 17 constructors gave evidence against the developer works inspectors and plumbing inspectors. However, they had not reported the issues previously, as they feared they would lose their Sydney Water accreditation. We now have an external 'fraud hotline' to protect disclosures, which is advertised widely. We have also presented to staff, suppliers and third parties about business ethics, corruption and how to report it. These presentations will be done on ongoing basis. We've also written to all contractors advising them of Sydney Water's expectations and their role in reporting corruption.

6. **Invest in corruption prevention.**

Allocating appropriate resources for corporate governance and oversight is essential to ensure we penetrate into the organisation. One of our issues was that we didn't have the enough staff in this area. We've now double the Internal Audit team and within the team the corruption prevention area has tripled in size. While it may cost more it's better business practice.

7. **Adopt a risk mindset and do risk assessments.**

When allocating work we had an efficiency mindset not a risk mindset. The new dedicated, specialist developer works inspection team now has best practice corruption prevention features such as centralised bookings and scheduling of appointments so contractors do not know which inspector they will see. We rotate inspectors across areas and do surprise field audits of inspectors at work.

We've reviewed which functions or processes are at higher risk of corruption. This includes where there are flows of money or equivalent, dealings with external third parties, where past corruption activities existed and where split supervision exists. We've also established risk controls and checks and ensure staff in identified risk areas are subject to intrusive supervision.

8. **Check structure for weaknesses.**

Our developer works inspection tasks were tacked onto an existing network maintenance team as an additional task. This was because our focus was on efficiency. The corruption risks for this different task were not at front of mind. As a result training was limited and work tended to be given to one or two people who were not really supervised. This was trust without verification or checks.

9. **Be aware and stand firm.**

The more you outsource work to the market the more likely your risks increase, and the better your corruption prevention needs to be. This could get even worse in recession as the private sector becomes hungrier for work. There is an issue with the culture in the industry, which we need to tackle head on. We have clearly stated that it's not acceptable way to do business and Sydney Water will not condone it.

10. **Be patient.**

An investigation such as this by the ICAC does take time as there is a proper process to be followed.

#### **4. The gains**

While hard to believe the issue has had a positive impact on Sydney Water 's culture as there is a much better resilience to corruption.

Our staff do understand that we have a zero tolerance and are now very aware of the risks and how to report corrupt behaviour. We continue to reinforce what we mean by fraud and corruption by using examples of what's right and what's not. Managers are been trained on what to look out for, how to document allegations and the steps to follow.

In addition to continually reinforcing our zero tolerance stance, we have better systems, tools and supervision in place now to prevent corruption.

As a result managers and staff are much more alert and proactive. This was evidenced in July this year when one of our maintenance inspectors returned to his work vehicle to find \$200 on the seat. After the initial shock he did the right thing and reported it to his manager. Sydney Water then reported it to the ICAC. We are now investigating how this happened so that we can take action.

We are confident that this greater focus on reporting will act as a strong deterrent for those inclined to do the wrong thing.