

# Operation Fitzroy – investigation summary

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Operation Fitzroy was an investigation initiated by the Independent Broad-based Anti-corruption Commission (IBAC) in September 2013 into possible serious corrupt conduct (as defined under IBAC legislation).

The investigation looked at conduct associated with infrastructure projects, mainly in non-metropolitan locations, of the Department of Transport (DOT) and Public Transport Victoria (PTV).

Given DOT and PTV's total operating expenses amount to billions of dollars annually to provide transport services for the people of Victoria, IBAC determined it was in the public interest to conduct an investigation to determine whether corrupt conduct had been or was occurring, and whether there were corruption prevention issues that needed to be addressed.

## The scope and purpose of the investigation

The scope and purpose of the public examinations was to investigate:

- the establishment and control by, or on behalf of public servants, of businesses and companies that later secured contracts with DOT or PTV in the period between 2007 and 2013
- circumstances under which DOT/PTV contracts were quoted, tendered for and awarded in this period
- the involvement of employees in carrying out DOT/PTV contracts in this period
- any actual and potential financial benefits obtained by any such employees and members of their respective families and their associates
- the systems and controls in place at the DOT and PTV concerning procurement of goods and services.

## Scale of the investigation

In conducting the investigation, IBAC:

- conducted substantial physical surveillance
- made 64 property seizures with 2,272 separate exhibits
- obtained statements from 11 witnesses
- executed 20 search warrants
- identified 559,000 files for review
- obtained and analysed thousands of pages of financial records and computer-generated data from a range of open sources as well as under search warrant
- held 43 compulsory examinations of witnesses, with 25 in private and 18 open to the public.



## Public examinations

The public examinations were held at the County Court of Victoria and ran for a five-week period commencing Monday 21 July 2014. It was determined that it was in the public interest to hold public examinations because of the amount of benefits that appeared to have been obtained through corrupt conduct, the value of the contracts affected, the clandestine nature of the activities, and the likelihood that the conduct under investigation may be occurring elsewhere in the public sector.

## What the investigation found

- Serious systemic conflicts of interest and breaches of public sector rules and values
- False declarations in procurement reports
- Breaches of compliance with internal probity rules
- Falsification of documents (dummy quotations and tenders, and false signatures), use of false identities, use of misleading contact identities for contractors, use of puppet company directors and rigged contract quotes and tenders
- Undisclosed subcontracting
- Warning signs failing to prompt an investigation or effective response. This made it difficult to appreciate that what seemed to be isolated incidents were part of a broader scheme
- The culture and methods of dealing with misconduct and possible corrupt conduct were inadequate

## Investigation outcomes

Operation Fitzroy ultimately exposed that at least \$25 million worth of DOT and PTV contracts had been affected by serious corrupt conduct.

This conduct went undetected and warning signs failed to prompt an effective response for at least seven years until IBAC took overt action in late 2013.

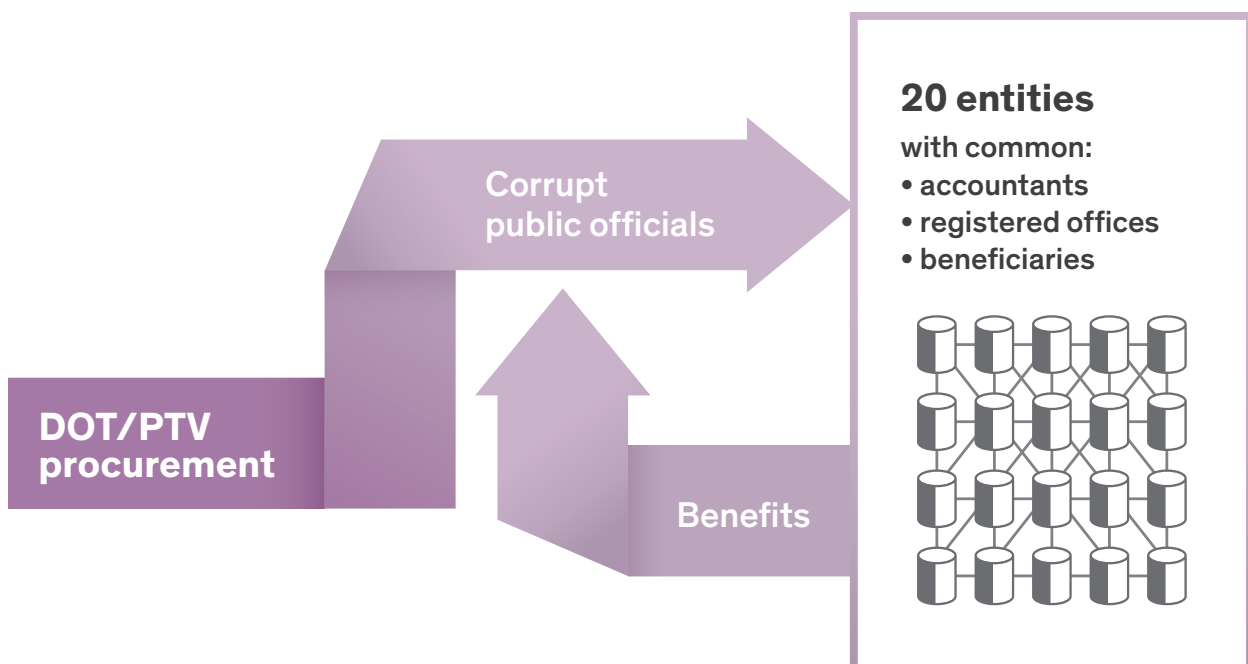
As a result of the corrupt conduct, two public servants obtained over \$3 million in personal profits and benefits, including goods and services from 'friendly' third parties who performed work for PTV.

The investigation also revealed that around 20 key entities were involved in the corrupt activities in question. Companies were established and business associates colluded to corruptly award contracts and pocket public money which was allocated for public infrastructure.

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Performing public searches of Australian Securities and Investments Commission (ASIC) records could have uncovered the web of entities having links back to the public sector employees.

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Fitzroy: a network of entities

## Corruption vulnerabilities

Corrupt conduct in this instance occurred largely because of poor controls, an organisational culture of non-compliance, and inadequate supervision in DOT and PTV.

Examples of these include:

- poor contract management, with little attention to projects and inadequate performance monitoring once a contract was awarded
- a lack of due diligence on suppliers who were awarded contracts
- ad hoc audit processes and responses to audits raised concerns about the effectiveness of the audit and risk management functions
- limited procurement training and expertise which affected the capacity to exercise and enforce good procurement practices
- conflicts of interest were not declared or were poorly managed
- a lack of managerial expertise resulted in inadequate supervision and checks on staff and in failing to recognise red flags, this in turn resulted in improper, non-compliant and corrupt behaviour going undetected
- the imposition of tight timeframes and a culture of expediency created corruption risks related to procurement planning, compliance and scrutiny of decisions.

## Impacts of corruption

Public sector procurement involves large sums of money, often spent in small parcels, in a system of great complexity, and with high levels of decentralisation.

Public sector organisations are entrusted with a significant responsibility for public expenditure – they spend billions of dollars on construction and other goods and services in order to provide public services to the people of Victoria. With this comes an obligation to have robust measures in place to ensure integrity in procurement practices. The core principle of government procurement is to obtain best value for money for the Victorian community.

The ultimate effects of corruption in this instance have been:

- poor value for public money
- the diversion of public funds from important infrastructure projects
- an uneven playing field where honest contractors have been shut out of the market and have not been able to compete fairly
- important projects were not completed or completed to unsatisfactory standards
- public funds were used for direct personal benefits.

## Conclusion

The issues and risks associated with public sector procurement identified through Operation Fitzroy may not be confined to DOT or PTV. There is a clear need for the Victorian public sector more broadly to learn from the findings of that investigation and strengthen measures to ensure integrity in public procurement.

For their part, DOT/PTV indicated acceptance of IBAC's findings in the investigation report and confirmed their commitment to fully implement a comprehensive program related to procurement reform and cultural change.

**Visit the IBAC website to read the full report and further information [www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)  
If you suspect corruption in the public sector, you can make a complaint to IBAC.**

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IBAC is Victoria's first anti-corruption body with responsibility for identifying and preventing serious corrupt conduct across the whole public sector, including members of Parliament, the judiciary and state and local government.

IBAC also has a broad oversight role in relation to police personnel misconduct and an important education function to proactively assist public sector agencies to improve their systems and processes to prevent corrupt conduct.

**To report corruption phone 1300 735 135 or visit [www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)**