

## **FINAL REPORT IN RESPONSE TO RECOMMENDATIONS MADE BY IBAC FOLLOWING 'OPERATION FITZROY' INVESTIGATION**

### **TO: THE INDEPENDENT BROAD-BASED ANTI-CORRUPTION COMMISSION ([IBAC])**

On 30 October 2014 IBAC published its report into the "Operation Fitzroy" investigations. At the conclusion of the that report, IBAC made a number of recommendations, some of which were directed to Public Transport Victoria (PTV).

IBAC recommended that PTV provide a progress report by the end of June 2015 detailing its efforts in addressing the shortcomings identified by IBAC in its investigation, and PTV provided that report by the suggested date.

IBAC further recommended that PTV provide a follow up report demonstrating the effectiveness of these efforts by 31 December 2015, and I am now pleased to provide PTV's report to IBAC in response to that recommendation.

PTV has made considerable progress in implementing a range of programs designed to address the shortcomings identified by IBAC in Operation Fitzroy, and it continues with the application and ongoing implementation of those and other programs. I can confidently say that the manner in which PTV conducts its procurements is considerably different to how some procurement practices were conducted at PTV in the first year or so following PTV's commencement of operations in early 2012.

Finally, and importantly, PTV regards cultural reform as a key area of focus and as something that requires time and effort to achieve. PTV is putting considerable effort into supporting and implementing this reform.



**Gary Liddle**  
**Chief Executive Officer**

**31/ 12 /2015**

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#### **FINAL REPORT**

## PART 1 – EXECUTIVE SUMMARY

PTV and the former Department of Transport were indirectly the subject of IBAC's 'Operation Fitzroy' investigation, its hearings, and ultimately its findings, observations, and recommendations.

PTV provided a detailed progress report to IBAC on 30 June 2015 in response to the first part of the first recommendation made by IBAC (which is set out below). This report is in response to the second part of that recommendation.

PTV has implemented a wide range of reforms across key areas of its business, and is well advanced in the ongoing completion of those reforms. It is also embedding into its framework of business practices a culture of continuous improvement, continuous diligence, and a striving for best practice.

Many of the topics covered in this report were the subject of PTV's June report, and PTV has maintained the same report structure and topic headings for consistency.

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### IBAC RECOMMENDATION 1

*"The CEO of PTV provides a detailed progress report to IBAC by 30 June 2015 on the implementation of its program of procurement reforms and cultural change to address the issues identified throughout Operation Fitzroy, followed by a further report demonstrating effectiveness of these reforms by 30 December 2015. These reports will be published on IBAC's website."*

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## PART 2 - PROCUREMENT REFORMS

### 1. *Progress of PTV's Procurement Reforms*

- 1.1. Following the successful three month procurement reform pilot in September 2014, PTV's new procurement policy has now been deployed across the organisation. This is in line with the Victorian Government Board Purchasing Framework (VGPB). To date more than 300 staff have been trained in the procurement process. The procurement team maintains a register of all persons who attend training sessions.
- 1.2. PTV continues to liaise with the VGPB regarding PTV's transition to the new procurement model. In October, PTV submitted an accreditation response to VGPB and followed up with a presentation to the Secretariat. Although noting that some good work had been undertaken in the development of the documentation required to attain accreditation, the VGPB has requested some final clarification on further points

around the development of a capability development plan, a supplier engagement plan and a management planning strategy. PTV will submit its amended accreditation response to the VGPB through PTV's Chief Procurement Officer in early 2016.

- 1.3. PTV's monitoring and control processes are now fully implemented. An analyst was recruited into the procurement team during 2014 to provide dedicated reporting, both internally to the procurement team and to Divisional Directors. This has proved very successful in terms of providing clear and traceable expenditure visibility across the organisation, relating to the following:
- expenditure exceeding approval report;
  - contracts expiring within the next 6 months;
  - contracts awarded in last 3 months;
  - purchase orders raised just below delegation thresholds;
  - frequency of purchase orders raised by suppliers [cumulative] which covers multiple engagements with same suppliers; and
  - top 10 contracted suppliers.
- 1.4. Effective reporting has led to improved compliance across the organisation, with regular monitoring giving PTV the ability to identify and take early corrective action in the event of any procurement activity that falls outside the compliance guidelines. As an example, in the recent November 2015 reporting period there were nil instances of a purchase order commitment exceeding previously approved contract amounts.

## **2. Supplier Validation**

Since March 2015, PTV has been using corporate enquiry software Encompass. The purpose of this is to improve supplier validation processes around contractors and mechanisms to detect fraudulent or corrupt behaviour.

Encompass allows PTV to conduct company and other searches, as well as to create diagrammatical reports which show any linkages between companies and individuals.

To ensure robust supplier validation procurement, officers in the PTV legal and finance areas have access to Encompass. Searches are run on the following basis:

### **PTV Legal**

- prior to the execution of a contract, including where a contract is assigned or novated to another party;
- in the event of supplier disputes;
- to assist in assessing matters declared in conflict of interest declarations; or
- when conducting an investigation.

### **Finance**

- request to add new supplier and to update or change supplier name or any EFT payment details (for example, an address);
- a procurement activity; or
- an audit spot check across all levels of expenditure.

## **3. Sharing IBAC Lessons Learnt across Government**

A further series of procurement presentations, incorporating the IBAC lessons learnt, have been delivered at the following forums:

- (April 2015) Delivering Value across Public Sector Procurement;
- (May 2015) Women in Procurement;
- (24 Sept 2015) "Operation Fitzroy" – Lessons Learnt – presentation to the Institute of Public Administration Australia conference;
- (12 November 2015) "Operation Fitzroy" – Lessons Learnt – presentation to the Victorian Department of Health & Human Services and the Victorian Department of Environment, Land, Water & Planning;
- (November 2015) Annual Government Procurement Conference.

Attendees at the presentations to date have included both Victorian and Commonwealth representatives from State, Federal and Local Government. In addition, feedback from private corporate sector audiences highlights they have also found the sessions very beneficial in terms of fraud and corruption prevention awareness.

The presentations are tailored to each group to meet the particular focus of that group but are based on the example presentation provided to IBAC as an annexure to PTV's June 2015 report.

#### **4. How have PTV's Procurement Reforms addressed the IBAC findings?**

In this section, each sub-section addresses a finding made by IBAC. Key procurement initiatives which address the IBAC findings include:

##### **4.1. Creation of approval to procure and recommendation to award stages comprising:**

- a transition away from the old "Contract Approval Recommendation Report" process, to one fully aligned with the VGPPB complexity framework which defines the sourcing process in line with expenditure, business requirements and supply market dynamics;
- the recommendation to award stage request must be prepared by the relevant contract manager, with endorsement by Procurement Branch (>\$25K) and approval by the responsible Divisional Director prior to going to market;
- the recommendation by the relevant contract manager, endorsement by Procurement Branch (>\$25K) endorsement by responsible Divisional Director and approval by the appropriate financial delegate (if above the responsible Divisional Director's level of authorisation) prior to award of contract;

##### **4.2. Improved Training**

Since September 2014, procurement reform training has been regularly conducted across all PTV Divisions.

Basic contract law training was made available to all staff and contract managers (this was completed in February 2015); contract specifications writing training (this was completed in April 2015); and contract management training (this was completed in July – September 2015);

#### 4.3. Greater Visibility through the use of e-Tools

A variety of e-tools are now used across the procurement team, including:

- Tenderlink: for the issue of tenders (mandatory for all public tenders) and submission of tender responses;
- VendorPanel: quotation management system for panels. Guidance notes have been drafted by PTV's Procurement Branch for contract managers to use when engaging contractors on panels, and staff are encouraged to use whole of Victorian Government panels.

PTV are also proactively moving towards the establishment of a more advanced Contract Management System ("CMS"). PTV will be issuing a tender for the implementation of an off the shelf CMS in early 2016. The new CMS will have capability to link to financial systems so that there is a link between expenditure, commitments and approval. It is expected that the new CMS will be implemented by July 2016.

#### 4.4. Updated Procurement Team Structure

PTV's Procurement Branch now comprises 9 FTE specialist procurement positions (inclusive of the Chief Procurement Officer) as well as additional short-term resources as needed to cope with fluctuating project activity. A recruitment process is currently underway to fill roles which were not filled through the restructure.

This includes the creation of a Supplier Engagement and Assurance Manager dedicated to ensure continued compliance, ongoing training, plus the identification of supplier leverage opportunities, and the development of a procedures/process guide to assist business users with key procurement activities

Under the new procurement re-structure which went live on 30 November 2015, the importance of effective procurement has been elevated across the organisation. As a result, the Chief Procurement Officer now directly reports to the Executive Director, Corporate Services.

A Procurement Branch organisation chart is shown in Annexure 1.

- 4.5. *["procurement policy was generally not supported by management"]*  
*["management lacked accountability and deficiencies in procurement processes were highlighted to senior management as at 30 April 2012"]*

#### Updated Policy and Procedures Framework

The PTV CEO approved the Revised Procurement Policy in March 2015 which is actively used across the organisation.

- 4.6. *["staff members were not properly, or at all, trained for risk identification associated with fraud and corruption"]*  
*["For the period 2008 to 2012, evidence could not be found that employees of DOT and PTV were trained in relation to fraud and corruption."]*

#### Greater Fraud and Corruption Awareness



PTV's Fraud and Corruption Awareness Training Activities and the Fraud and Corruption Lead Indicator monitoring process (both referred to in greater detail elsewhere in this report) are intended to address these issues. Importantly, these initiatives are comprehensive programs developed following PTV's procurement of external expert advice on the subject matter. Application of the initiatives is also mandatory. All PTV staff are required to undertake the training, whether as part of PTV's induction package, or as part of PTV's program of refresher training that is being developed.

## 5. ***Procurement of Bus Infrastructure***

PTV is undertaking a project the purpose of which is to outsource the coordination and provision of bus stop infrastructure across Victoria. Once in place, the arrangement will replace the existing internal PTV system that has until now performed that function.

The aim of the project is to secure a managing contractor with the knowledge, and tools, to consistently manage the delivery of PTV bus infrastructure construction and maintenance services.

The services to be managed by the managing contractor include:

- reactive maintenance of bus stop infrastructure;
- annual scheduled maintenance of bus stop infrastructure;
- procurement of bus infrastructure materials required for maintenance and projects;
- ensuring PTV has access to up to date details of infrastructure at all bus stops (via audit);
- special projects including:
  - o timetable changes;
  - o special events such as White Night, etcetera;
- bus stop upgrades as required under the Performance & Contract Management bus stop program.

It is intended that the managing contractor will enter into sub-contracts with a number of specialist suppliers in order to ensure competitive pricing for bespoke packages of works (such as timetable changes).

PTV will retain the right not to award special packages of work to the managing contractor should the quoted price not represent value for money, or the managing contractor is unable to complete the works within the required time frame.

The issues that will be addressed by this project will include:

- aligning delivery of bus infrastructure projects under the same process as projects delivered in other parts of PTV;
- the project will reduce the possibility or perception of PTV having a conflict of interest or corrupt practices in relation to the bus project procurement;
- the present methodology results in a reduced capacity of the Bus Infrastructure Team to focus on strategic issues and network wide thinking. The project will reduce the demand of day to day issues on the Bus Infrastructure Team members, thereby enabling them to focus on significant issues and strategic planning;
- the new methodology will result in shorter project delivery times as the managing contractor will be responsible for delivering to a schedule and can focus resources accordingly; and

- the present methodology leads to a significant procurement effort for Bus Infrastructure projects. The new methodology will reduce the amount of procurement activities that the Bus Infrastructure Team are required to perform. One purchase order per project will be required as opposed to the current process of multiple purchase orders being raised for labour and materials.

***The process followed to date***

PTV has conducted internal risk workshops to identify key risks with a contractor managing the delivery of bus infrastructure works. Risks will be eliminated, or mitigated, via contract and specification.

A consultant was engaged to:

- review PTV bus infrastructure delivery processes;
- review PTV spend on bus infrastructure;
- review the market to identify companies capable of taking on the role of managing contractor;
- identify potential delivery models; and
- provide final report and recommendations.

Another consultant was engaged to:

- develop an appropriate supplier contract;
- develop an appropriate supply specification; and
- produce an appropriate pricing matrix.

The Department of Treasury and Finance has approved the use of the template contract. PTV has produced Request For Tender documents. Funding to cover estimated yearly spend over five years identified under the Bus Subsidy Program has been approved. An Approval To Procure has been obtained through the PTV procurement process. A Request For Tender has been released. A vendor briefing session has been held, including a PTV presentation and a Q&A session with possible vendors.

Evolution of the project is ongoing and it is anticipated that the outcome of the project (appointment of a contractor, and commencement of the methodology) will be completed in the first half of 2016.

**6. *KPMG Internal Audit Report***

In preparation for this report and as part of regular reviews of PTV procurement practices, PTV directed its Internal Auditor, KPMG, to undertake a further review of procurement processes in PTV.

The review took place in November 2015 and included a finding that no negative issues of any significance had been identified regarding PTV's procurement practices. Two findings of minor significance have already been addressed.

A copy of the KPMG report is provided in Annexure 2 of this report.

**7. *Investigating control weaknesses***

In addition to PTV's comprehensive fraud and corruption framework which provides for the reporting and subsequent investigations, PTV has also strengthened its internal audit capability with the recruitment of an experienced investigative accountant who is available to undertake both programmed and urgent reviews of internal controls should concerns develop about the efficacy of those controls in particular activities or areas of PTV's operations.



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## PART 3 - FINANCIAL CONTROL REFORMS

### 8. *Contract Management System (CMS)*

As reported above [4.3], PTV is moving towards the implementation of a more advanced CMS system.

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## PART 4 - FRAUD PROTECTION SYSTEM REFORMS

### 9. *Fraud and Corruption Control Plan*

As previously reported, PTV has developed its Fraud and Corruption Control Plan (Policy and Procedure) in line with (AS 8001 – Fraud and Corruption Control). The policy was approved for implementation in September 2014 and forms an integral component of the PTV Fraud and Corruption Control Framework.

The purpose of the policy is to outline the mechanism in place at PTV for preventing, detecting and responding to instances of fraud and corruption.

Key elements and processes within the policy include:

- PTV's statement on fraud and corruption;
- roles and accountabilities for fraud and corruption control at PTV;
- relationships with other key PTV policies and procedures;
- planning and resourcing;
- fraud and corruption prevention;
- fraud and corruption detection program; and
- responding to detected fraud and corruption.

The policy has been made available to all PTV staff online through the intranet and key elements of the policy are addressed as part of the staff fraud and corruption training program. To date, the policy has been effective for PTV as it has formalised the framework for fraud prevention, detection and response initiatives in line with best practice guidance. The policy will continue to be reviewed and updated in line with future organisation requirements and the latest best practice guidance standards.

### 10. *Fraud and Corruption Response Procedure*

As previously reported, PTV has developed and established a Fraud and Corruption Response Procedure (FCRP). The FCRP was approved in November 2014 and is currently utilised by the PTV Fraud and Corruption Response Team (FCRT). The purpose of the FCRP is to ensure that PTV has an adequate procedure in place for responding to reports of fraud, corruption and conducting the investigation process.

The FCRP outlines the following key elements and processes:

- roles and accountabilities for fraud and corruption response;
- the response process;
- capturing reports of potentially inappropriate activities;
- filtering and evaluating reports;
- assigning a report and planning investigations;
- investigation process; and
- resolving investigations.

Since its introduction, the FCRP has been effective in its use as a tool to guide fraud and corruption response activities and the investigation process. Our fraud and corruption reporting channels have been established in line with responsibilities outlined in the document and key elements of the procedure have been covered as part of fraud and corruption training sessions for staff. The FCRP will continue to be reviewed and updated in line with business requirements and best practice standards.

#### 11. ***Fraud and Corruption Response Team***

As previously reported, PTV has established an FCRT consisting of Executive level representation across key Divisions. The inaugural meeting of the FCRT was convened in September 2014 and the group has now met on seven occasions. At a minimum, the FCRT is required to meet on a quarterly basis with the facility to call additional meetings as required or as a result of reports, incidents or events.

Terms of reference have been developed for the FCRT which outlines the group's purpose including its relevant roles and responsibilities. The primary aim of the FCRT is to respond to and investigate any actual or alleged incidents of fraud and corruption affecting PTV and to make recommendations for disciplinary action at the conclusion of the investigation process. The FCRT functions in accordance with the requirements of the PTV Fraud and Corruption Control Plan (Policy and Procedure) and applies the principle of the FCRP as part of its response and investigation activities.

PTV has established internal reporting channels for fraud and corruption and these channels are embedded within our key fraud policies and are communicated to staff through regular fraud and corruption training initiatives. A fraud and corruption incident register process has also been established to capture all reported matters which are then referred through to the FCRT. Matters are treated in line with the guidance and requirements of the FCRP.

Since its inception, the FCRT has been the central point for dealing with reports of fraud and corruption that have been made through to PTV. Whilst not directly accountable, the FCRT has also assisted with providing guidance on the other fraud framework development activities such as fraud and corruption training activities, risk assessment activities and internal control reviews.

To date, the FCRT has had oversight on items reported through PTV's internal fraud reporting channels and the incident reporting framework. The current FCRT process has been effective in formalising PTV's approach to fraud and corruption response and to ensure that adequate policies and procedures are in place to respond to such events as they occur. PTV is also committed to providing fraud and corruption training to Executive staff members to ensure they are adequately trained to discharge their obligations under the Fraud and Corruption Control Plan (Policy and Procedure) and the FCRP.

12. ***Fraud and Corruption Risk Assessment Update - 2015***

PTV is currently performing a fraud and corruption risk assessment update. Its initial fraud and corruption risk assessment was performed in 2014 and identified high level risk fraud and corruption risks facing PTV. The current process aims to refresh these fraud and corruption risks in line with current PTV policies, practices and processes.

PTV has engaged KPMG to perform the fraud and corruption risk assessment update process. The process will consist of Director level interviews followed by a fraud and corruption risk assessment work shop. The interview process has been conducted throughout November and December 2015. The fraud and corruption risk assessment work shop is scheduled for January 2016. Executive level fraud and corruption training will also be factored into the work shop to fulfil the training requirements of senior management. The primary output from the process will be an updated fraud and corruption risk register which can be integrated into PTV's risk management framework.

13. ***Specific weaknesses identified by IBAC and corresponding PTV actions***

***IBAC observed that there were weaknesses in the internal audit systems:***

As previously reported, PTV has undertaken the following internal audit activities to address this issue and offers the following updates:

- the Internal Audit Plan will continue to be signed off and approved by the PTV Audit and Risk Committee on an annual basis;
- planned internal audit activities continue to factor in key PTV risks as listed in the Risk Register.
- the Audit and Assurance Branch has been merged with Risk Management as part of the revised PTV operating model effective 1 December 2015. This will further enhance linkages between risk and internal audit activities across PTV;
- delays in clearance of audit findings are also tracked as part of the lead indicator monitoring processes and have high visibility at Executive, CEO and Board levels;
- a centralised Audit and Assurance Officer continues to control and manage the tracking of audit findings with key Divisional contact points established. The audit tracking continues to be maintained;
- the status of audit actions continues to be reviewed by the PTV Audit and Risk Committee;
- audit findings and associated action plans continue to be tracked for internal and external audits through the tracking register process;
- outstanding findings and corresponding actions continue to be escalated through PTV's visualisation room reporting and discussed in the weekly Executive Meeting; and
- processes surrounding the clearance of audit findings and changes in action dates continue to be maintained.

***Update***

PTV provides the following update on previously reported item.

- the Procurement Analyst continues to review and monitor contract and procurement data. Key procurement, supplier and contract data continues to be tracked through Visualisation room reporting;
- the lead indicator monitoring activity is being performed on a monthly basis with results reported through to the Fraud Corruption Control Officer ("FCCO") and FCRT as required; and

- an Internal Control Review Program and Plan is now in place. A working group has also been established for the reporting and management of internal control review activities. The plan continues to be implemented and is updated as required based on current issues and risks.

## PART 5 - CULTURAL REFORM

### 14. *Changing the old culture to encourage and equip staff to identify, report and act on patterns of irregular conduct*

PTV has a Change Management Plan to support procurement reforms and cultural change and has embarked on:

- an organisational re-structure;
- continuous business improvement (systems, processes, governance); and
- leadership and management development and culture change.

The Change Management Plan ensures our programs serve to:

- raise awareness;
- increase employee understanding and knowledge;
- share information;
- get employees involved; and
- monitor and track our progress using visualization management.

The Change Management Plan is evolving and good progress has been made to address structural issues and other business improvements (as noted elsewhere in this report).

PTV's program of cultural reform to build organisational capability to deliver the desired culture has commenced. This program is aimed at reforming the culture as shown in the table below.

Current state culture	Preferred state culture
Sanguine, complacent, expedient culture	A constructive, empathetic, inclusive, visibly values driven, ethical culture driven by an extended leadership team that is fully present with customers and the community, functioning and focussed
Operating model is organic and unplanned	Cultural program effectively supports the new structure, new way of working ("doing a small number of things very well") and new behaviours
Lack of understanding of the cultural attributes that connect organisations in the	Set the benchmark and work together to build a preferred industry-wide culture

Public Transport industry	
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PTV is in the process of securing a supplier to work with PTV to implement three simultaneous streams of work, which are:

**Manage culture**

- Conduct an in-depth cultural assessment and analysis of the entire organisation using Human Synergistics tools;
- Map and align PTV Values to the Human Synergistics (HS) Circumplex

**Lead culture**

- Align the Executive Team and the Senior Leadership Team to detail the core essence of PTV's preferred culture and how it can be brought to life through the way individuals act, what they say, what they measure and what they prioritise.

**Influence culture**

- A behavioural change program around the key behaviours that are most critical to shift;
- A "Make it practical" plan (for example: how to embed a "speak up" culture).

The program has active and visible sponsorship from the CEO and the Executive team, a structured change management approach, and dedicated change management resources.

**15. Targeted Training and Education – Fraud and Corruption Awareness training**

PTV is committed to providing regular fraud and corruption training awareness to staff members at all levels of the organisation. In line with our Fraud and Corruption Control Plan (Policy and Procedure) we develop and deliver an annual program of fraud and corruption training initiatives which are rolled out across the organisation. The training program aims to:

- raise the level of fraud and corruption awareness amongst all PTV staff;
- assist with the development of an anti-fraud culture where reporting of potential issues and concerns is encouraged;
- provide staff members with training to assist them to recognise the signs of fraud and corruption including red flags and risks;
- clarify and confirm fraud and corruption control roles and responsibilities across the business;
- raise staff awareness around key elements of PTV's Fraud and Corruption Control Framework including policies, response procedures, reporting channels and available support services;
- raise awareness of the role of the Independent Broad-Based Anti-Corruption Commission (IBAC) including reporting channels and Protected Disclosures.

A fraud and corruption training program for 2015/2016 has been developed and was presented to the FCRT on the 25 June 2015. The training program consists of all staff training sessions, the development of an online fraud and corruption training module and interactive work shop sessions. KPMG have been engaged to develop the training material and deliver these services to PTV.

**Fraud and Corruption Control Awareness Sessions:**

KPMG facilitated three fraud and corruption training sessions to staff in August 2015. Training attendance records were maintained and approximately 226 staff members have attended the sessions.



***Fraud and Corruption Training Module***

An online fraud and corruption training module is currently under development. This commenced roll out in December 2015. The module will be delivered to staff through a targeted roll out program. The module will also be utilised to train new employees and act as a refresher tool for existing staff members.

***Fraud and Corruption Training Work Shops***

KPMG will deliver two fraud and corruption work-shops. These sessions will be attended by selected employees with Finance, Procurement or Project Management responsibilities. These sessions will focus on the specific needs and requirements of attendees and will be interactive in nature. The sessions are targeted to occur in early 2016.

***Fraud and Corruption Awareness Training Program - Executives***

Fraud and corruption awareness training will be provided to PTV Executives and members of the FCRT in early 2016. The sessions will focus on the training needs and requirements of senior staff members and will be rolled out as part of the PTV fraud and corruption risk assessment process.

**16. *Targeted Training and Education – Professional Obligations***

The PTV Staff induction has been updated to ensure staff are aware of their responsibilities in relation to discrimination, harassment and bullying; dealing with the media; workplace security; information security; fraud and corruption prevention; environment management; safety at PTV; risk management; procurement and delegations.

Staff who had been trained using an earlier induction were provided with a stand-alone module on Professional Obligations, which was released in September 2014 and had an 88% completion rate.

**17. *Targeted Training and Education – PTV Induction***

The PTV Staff induction has been updated to ensure staff are aware of their responsibilities in relation to discrimination, harassment and bullying; dealing with the media; workplace security; information security; fraud and corruption prevention; environment management; safety at PTV; risk management; procurement and delegations. This is monitored by the People and Culture team and updated as required. All staff receive the online induction training module within 1 week of commencing work at PTV and the expectation is that they complete the module within a week of receiving the login details. Reminders are sent to staff that have not completed the training until completed.

The completion rate is 99%.

**18. *Targeted Training and Education – Contract Management training and Supplier Management training***

On 3rd and 5th February 2015, 38 PTV staff members attended in-house Contract Management Training with Maddocks Premium Legal Services.

On 10 July, 27 July, 17, 18 and 19 August, 52 staff members attended in-house Contract Management Training with ArcBlue Consulting.

The training covered formation of a contract; contract issues in tendering; key parts of a contract; contract negotiation issues; flexibility in contracts; contracts and legal risks; and



breach and termination.

Training providers were identified by the Finance Division and worked with the People and Culture Division to source training, identify suitable staff members and organise training sessions.

#### ***Franchise Contract Management***

In addition to the training and education activities reported to IBAC in PTV's June 2015 report and above, PTV is conducting the following related activity.

PTV has engaged KPMG to assist it with developing an overall contract management governance framework to assist PTV in strengthening its contract management processes and procedures with particular focus on the train, tram and metro bus franchises (currently being the Metro Trains, V/Line Trains, Yarra Trams and Transdev contracts).

KPMG has met with key areas of PTV to discuss the current processes and critical points regarding its contract management practices in order to identify & develop the best management framework.

The proposed governance framework revolves around 6 Core Elements of Effective Contract Governance based on best practice principles sourced from the Chartered Institute of Procurement & Supply.

PTV is addressing each of the Core Elements via a RACI (Responsible, Accountable, Consulted and Informed) matrix, linking back to the key functions required to be performed under the contract and in-line with PTV's structure.

PTV is currently in the process of finalising the framework targeted to be completed by January 2016 and will then be ready to start populating the matrix early in 2016. Once a draft matrix has been completed, PTV will seek feedback and input from the various relevant areas within PTV to progress the rollout of this management tool further.

#### **19. *Foster and promote a culture where employees actively safeguard the public purse***

PTV has embarked on a series of bespoke management training initiatives.

A leadership program, launched in 2014, set up a clear framework for training existing senior and potential leaders using a range of pre and post program assessment tools and evaluation along with a series of modules including:

- Leading at PTV;
- Leading Culture;
- Leader as Coach;
- Leading High Performing Teams; and
- Leading Change.

All participants are assigned a coach and attend seminars with a range of guest speakers at seminars. A Leadership Alumni is now in place, which provides a strong network.

By the end of 2016 more than 60 leaders will have completed the program (51 by the end of 2015).

In September this year a People Management Program was launched for 50 managers. The aim of this program is to support managers to develop the right skills and expertise to be successful and focuses on the following capabilities:

- Coaching for Results;
- Setting Direction; and
- Managing Performance.

This program uses pre and post assessment to track improvements over time.

Coaching circles and peer to peer learning groups, linked to targeted management topics, ensure that our future managers are not only informed about current management issues but also exposed to a range of current learning methodologies, that will in turn assist their management techniques.

PTV has also developed a new PTV Manager Transition program which was launched in November 2015 and runs in tandem with the general Induction Program but contextualizes information specifically for managers. Additional components of this program include PTV's legislative foundations, PTV's role, the safety culture and our values – from a manager's perspective, bullying and Harassment, Unconscious Bias and Mental Health First Aid.

A similar program for New General Managers (but with more detailed management contextualisation) will be rolled out in early 2016. 10 new general managers will take part in this new initiative that will ensure managers at that level are clear about their responsibilities and accountabilities.

PTV has also introduced a public transport industry mentoring program which is already in its second intake. This enables PTV managers to be matched with a number of senior managers from across the transport portfolio.

In addition to the in-house program, PTV has sent staff to 8 different management training programs or conferences in this financial year.

20. ***PTV staff to look for and highlight conduct which may reveal conflict of interest, favouritism, etcetera, and not to ignore signs of irregular conduct***

As previously reported, PTV's fraud and corruption training program has educated staff on how to spot, report and deal with any potential fraud and corruption. The training has focussed on how to identify the signs of fraud and corruption including relevant risks and red flags. The training has focussed on PTV's internal fraud and corruption reporting channels and those available through IBAC.

Training has also provided staff with information on conflicts of interest and Gifts, Benefits and Hospitality. PTV staff have been advised through this training process on what to look for and how to highlight conduct which may reveal conflicts of interest or irregular conduct. The material is also embedded within our online fraud and corruption training module.

Also as previously reported, an analysis tool containing fraud and corruption lead indicators has been developed by PTV which is monitored on a regular basis. The process has been effective in monitoring any identified areas of concern with any relevant anomalies reported through to the Fraud Corruption Control Officer and the FCRT. The current list of indicators being monitored includes:

- issues or conflicts identified through the supplier background checking process;
- contract extensions, variations, over/under payments and high spend levels;
- complaints raised by tenderers or suppliers;
- review of annual leave balances;
- fraud and corruption training attendance levels;
- reported thefts and losses; and
- outstanding audit recommendation.

The process has been effective to date as it has allowed PTV to track key trends in these areas to identify any possible fluctuations or potential fraud and corruption red flags.

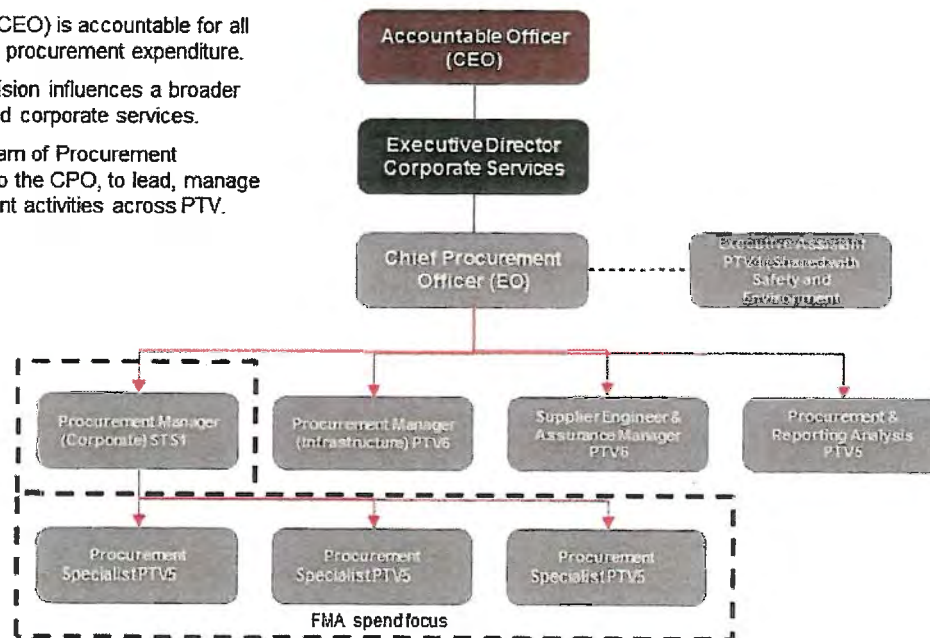
## ANNEXURE 1

# Procurement Divisional Structure

PUBLIC  
TRANSPORT  
VICTORIA **PT>**

The Chief Procurement Officer (CPO) reports through the Executive Director Corporate Services to the Chief Executive Officer (Accountable Officer).

- Accountable Officer (CEO) is accountable for all of PTV's addressable procurement expenditure.
- The Procurement Division influences a broader range of spend beyond corporate services.
- The Division has a team of Procurement specialists reporting to the CPO, to lead, manage and guide Procurement activities across PTV.







*cutting through complexity™*

# Procurement Reform Post Implementation Internal Audit Report

**Public Transport Victoria**

November 2015



# Procurement Reform Post Implementation Internal Audit Report

## 1. Executive Summary

### CONTEXT

In accordance with the 2015/2016 Internal Audit Plan of Public Transport Victoria ("PTV"), as approved by the Audit and Risk Committee, an internal audit of the Procurement Reform Program Post Implementation Review was undertaken.

***The objective was to test compliance with the new Procurement Policy and associated Procedures, introduced as part of Procurement Reform.***

In 2014, the Independent Broad-based Anti-corruption Commission ("IBAC") 'Operation Fitzroy' investigated

. In response, PTV management committed to a number of actions, and is required to provide a final report back to IBAC on progress against those actions in December 2015.

PTV's management action arising from IBAC's 'Operation Fitzroy' report was to create a new PTV Procurement Policy and associated Procedures. Consequently, a Procurement Reform was approved by the CEO on March 26, 2015 following an extended pilot program that trialled the new Procurement Policy and Procedures, as well as providing procurement training throughout the organisation.

The specific objective, scope and approach of this internal audit were agreed with management and are detailed in Appendix 2 to this report.

### FINDINGS SUMMARY



Our testing procedures involved selecting a sample of twenty-five "high risk transactions" from 1<sup>st</sup> April to 28<sup>th</sup> August 2015 to test compliance with the new Procurement Policy and associated procedures. Transactions procured under the Project Agreements with the Franchisees were excluded from the population due to the Franchisee being responsible for procurement activities under their relevant Project Agreement.

Testing conducted on the sample selected confirmed compliance with the new Procurement Policy and Procurement Procedures Manual for the period specified above. The findings in this report relate to some gaps in the procurement processes noted during sample testing, rather than non-compliance with Procurement Reform.

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# Procurement Reform Post Implementation Internal Audit Report

## 1. Executive Summary

### FINDINGS

	Ref #	Description	Issue Owner	Target Date
	2.1	Monthly Purchase Order reports issued from the Procurement Analyst should be reviewed.	Procurement Manager	31 <sup>st</sup> December 2015
	2.2	Guidelines detailing the use of evaluation plans and configuration of evaluation panels should be in place.	Procurement Manager	31 <sup>st</sup> December 2015

### Attention

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## 2. Detailed Findings

### 2.1 Purchase Order reports issued from the Procurement Analyst should be reviewed.

Monthly reports are created and issued by the Procurement Analyst from Oracle and CMS data to the PTV Procurement Team and PTV Directors, detailing the following:

- Identification of expenditure exceeding approval limits
- Identification of contracts expiring in the next 6 months
- Identification of contracts awarded in the last 3 months
- Purchase orders raised just below delegation threshold
- Frequency of Purchase Orders raised by suppliers (cumulative over the calendar year).

The purpose of the final two reports is to check if individuals in the PTV business units are avoiding Procurement Team involvement by "splitting purchase orders" to keep them under the \$25,000 threshold, the level of expenditure the Procurement team have direct oversight of the procurement.

Through discussions with the Procurement team, and testing of reporting issued over a three month period, it was noted that while the Procurement team check if expenditure exceeds approval, they do not check the report for Purchase Orders raised below the delegation threshold or the frequency of Purchase Orders raised by suppliers.

**Responsibility:** , Procurement Manager

**Remediation date:** 31<sup>st</sup> December 2015

The PTV Procurement Procedures Manual does not define accountability for reviewing Purchase Order reports. Section 1.6.2.1.5 of the Procurement Procedures Manual implies that the Procurement team will track "order splitting", however, it does not specifically define whom in the Procurement team is responsible or how this task should be performed.

#### Impact

Without adequate reviews to check if orders have been split, there is a risk that procurement transactions are avoiding the additional probity requirements required by the Procurement Procedures.

#### Recommendations

Responsibility and accountability for the review of reports for "purchase order splitting" should be assigned. It is expected that the PTV Procurement team members are best placed to check Purchase Orders raised below the delegation threshold and the frequency of Purchase Orders raised by suppliers and follow up on any suspicious behaviour and/or exceptions.

Medium

#### Management comments

The reports are generated by the Procurement Reporting Analyst which resides in the PTV Procurement team. These reports are sent to each Director and also all Procurement team members.

The Procurement team members review the reports and identifies any anomalies in their respective area/s of responsibility.

Where anomalies are found, the Procurement team member will meet with the business area concerned to understand why. The Procurement team member will refer to internal audit any suspicious activities.

The PTV Procedures manual will be updated accordingly.

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# Procurement Reform Post Implementation Internal Audit Report

## 2. Detailed Findings

### 2.2 Guidelines for the use of evaluation plans and configuration of evaluation panels should be in place.

Low

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The Procurement Procedures require supplier responses to be evaluated in accordance with an evaluation plan. There are two evaluation plan templates available:

- a short form, for lower value and “less risky” transactions
- a long form for more complex activities.

However, there were no definitive guidelines for the business, with regards to whether a short or long form evaluation template should be undertaken, or how to complete them. From the sample of twenty-five ‘Advanced Procurement’ (i.e. activity over \$25,000) :

- seven of the transactions utilised the short form evaluation plan
- seven other activities were evaluated using the long form, without any supporting evidence (or the requirement to) to support the choice
- Three of the evaluation reports were also not signed by the members of the evaluation panels.

Guidelines regarding the formation of the evaluation panel are not specified in any documents, hence, it is not mandatory to have any members from the Procurement or Finance team on the evaluation panel. From the sample selected, twelve of the transactions were evaluated using a panel, however there were only five instances where a member of the PTV Procurement team were present on the evaluation panel.

**Responsibility:** Procurement Manager

**Remediation date:** 31<sup>st</sup> December 2015

#### Impact

Inadequate evaluation of supplier responses may result in a supplier being awarded the work who cannot perform the work and/or does not represent the best value for money.

#### Recommendations

- Update the Procurement Policies and Procedures to specify the requirements to complete the evaluation plan templates, for example require procurement activities whose complexity levels are considered ‘focused’ or ‘strategic’ to use the long form evaluation plan template to ensure that a comprehensive evaluation occurs, and members of the evaluation panel are to sign-off on the report.
- The governance structure of the Evaluation Panels should be defined in the Procurement Policies and Procedures, for example, define when a member of the Procurement team should be part of the evaluation panel.

#### Management comments

As a general rule, the one page evaluation template is used for transactional and leveraged procurement exercises. A minimum of 3 panel members are required and there is no requirement for a Procurement team member to be involved.

As a general rule, the long form evaluation template is used for focussed and strategic procurement exercises. As a Procurement team member will be leading strategic procurement exercises, a Procurement representative will form part of the panel, if not as a scoring member, at least in an advisory capacity.

The PTV Procedures manual will be updated accordingly.

# Procurement Reform Post Implementation Internal Audit Report

## Appendix 1 – Background

### OVERVIEW OF THE PROCUREMENT REFORM PROGRAM AT NOVEMBER 2015

An update of the activities for the procurement function since the April 2015 Procurement Reform Internal Audit Report is provided below.

#### **Procurement expenditure profile**

The total procurement spend for non-operators for the 2014/2015 financial year is approximately \$490.5 million. The top 20 suppliers in terms of procurement spend, including both capital and operating expenditure accounted for approximately \$410.2 million, or 83.6%, of the FY 2014/2015 procurement spend. A breakdown of the top 20 suppliers is provided below for the entire FY 2014/2015 period.

#### **Procurement Spend Per Supplier - Top 20 Suppliers FY2014/2015 (in \$millions)**

Content redacted due to commercial in confidence information.

Spend in \$millions

Source: Oracle, Payments July 2014 – June 2015

### **New Procurement Policy and Procedures framework and Victorian Government Purchasing Board (VGPB) accreditation**

The PTV Procurement Procedures and Approvals Policy has been replaced with the newly developed PTV Procurement Policy) and PTV Procurement Procedures Manual (the Procedures Manual). Aimed at strengthening PTV procurement processes, the Policy was developed utilising wider industry better practice and aligned to the VGPB model, which is based on a complexity assessment of business needs and market supply dynamics.

The Procedures Manual provides more detailed guidance to supplement to the information provided in the Policy, and guides the user through the key steps and requirements of the procurement process and subsequent contract management process, including:

- Planning procurement and creating and issuing bid documents;
- Evaluating responses;
- Establishing contracts;
- Managing contracts; and
- Complaints management.

Note, Procurement Management have advised that the contract management sections were included in the procurement documentation to inform the PTV personnel undertaking procurement on how to manage the contract. The procurement process ends after the recommendation to award phase. The contract management process then commences with the execution of the contract.

The Procedures Manual is supported by templates, forms and a Quick Reference Guide made available on the PTV intranet, which together provide guidance for the end-to-end procurement process.

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# Procurement Reform Post Implementation Internal Audit Report

## Appendix 2 – Scope

In accordance with the 2015/2016 Internal Audit Plan of Public Transport Victoria ("PTV"), as approved by the Audit and Risk Committee, an internal audit of the Procurement Reform Program Post Implementation Review was undertaken.

### Objective and Background

The objective of this internal audit was to test compliance with the new Procurement Policy and associated Procedures, introduced as part of Procurement Reform. These documents were approved by the CEO on March 25, 2015, following an extended pilot program that trialled the new Procurement Policy and Procedures, as well as procurement training throughout the organisation. An Internal Audit was performed in the March/April 2015 period that considered the Procurement Reform Program at that time. With the Procurement Reform Program having been implemented for seven months, a Post Implementation review was undertaken to test compliance against the new Procurement Policies and Procedures.

### Scope

Based on the objective outlined above, this internal audit considered:

- Perform testing of high risk transactions, to test compliance with new Procurement Policy and associated Procedures, templates and guidelines on a sample basis incurred since the implementation of Procurement Reform.

### Approach

The internal audit was performed by:

- Conducting interviews with relevant PTV staff and examining relevant documentation to update Internal Audit's understanding of the new governance arrangements over procurement practices since the Procurement reform Internal Audit performed in March/April 2015.
- Selecting a sample of up to 25 high risk transaction from 1<sup>st</sup> April 2015 to 28<sup>th</sup> August 2015 from a population provided by management, to test compliance with the new Procurement Policy and associated procedures.
- For any exceptions noted from, confirm that the root cause of each exception with the relevant PTV personnel who made the procurement activity selected in the sample.
- Discussion of outcomes with management.
- Development of a draft report for management review and comment.
- Submission of the final internal audit report.

### Internal control structure

Due to the inherent limitations of any internal control structure, it was possible that fraud, error or non-compliance with laws and regulations may have occurred and not detected. Further, the greater internal control structure had not been reviewed in its entirety and, therefore, no opinion or view has been expressed as to the effectiveness of the greater internal control structure.

The procedures performed were not designed to detect all weaknesses in the control structure as they are not performed continuously throughout the period and the tests performed on the control structure are on sample basis.

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# Procurement Reform Post Implementation Internal Audit Report

## Appendix 3 – Testing Performed

### Test 1 – Testing compliance to Procurement Procedures

Two forms of testing were conducted during this audit. The first test involved selecting a sample of twenty-five 'Advanced Procurement' activities (i.e. activity over \$25,000) from 1<sup>st</sup> April 2015 to 28<sup>th</sup> August 2015 and reviewing if they complied to the PTV Procurement Procedures Manual and the PTV Procurement Policy (the list of twenty-five samples are displayed on the next page). Each of the samples were reviewed according for the following criteria set, as required by the Procurement Procedures Manual and Policy:

1. Business Specification/Memorandum
2. Approval to Procure Form adequately filled out
3. Approval to Procure Form signed by appropriate authorities
4. Sourcing strategy provided
5. Invitation to Supply documents, or equivalent
6. Invitation to Supply documents issued via Tenderlink
7. Supplier Documentation received
8. Evaluation Plan established
9. Evaluation Report developed
10. Evaluation Report signed by members of the Evaluation Panel
11. Supplier check
12. HR Approval (only for procurement of contractors or labour hires)
13. Recommendation to Award form signed by appropriate financial delegate
14. Contract executed correctly – signed by PTV Officers and supplier.

### Selection of Contracts

Procurement activities of the following form were excluded from selection:

- Procurement activities undertaken under the Project Agreements: the procurement process is outsourced to the franchisee, hence PTV's Procurement Team is not involved.
- Panel Specific Contracts: arrangements with suppliers had been established prior to the procurement process through either State Purchase Contracts or recruitment agencies.
- Contract Extensions with suppliers for activities that were first procured prior to the formation of PTV: the procurement documents would not be available to PTV as they would be stored within the Metlink database.

### Exceptions to Procurement Procedures

If any of the goods or services were not procured according to the procedures outlined in the Procurement Procedures Manual and Policy, evidence siting the reason for the exception were to be provided by the client.

Of the twenty-five samples, six of the activities were procured in a manner which did not comply with the Procurement Procedures Manual and Policy, however, sufficient evidence with provided for all six of these transactions.

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**Appendix 3 – Testing Performed**

The following table details the sample of twenty-five contracts selected

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## Appendix 3 – Testing Performed

### Test 2 – Testing compliance to Procurement Reporting

The second test involved reviewing the completion and adequacy of monitoring and reporting over Procurement expenditure and contract expiries and awards. The purpose of this test was to review the controls in place to mitigate instances of order splitting, which is the process in which multiple purchase orders are placed to one more vendors for the same like or related goods, work or services to avoid using the appropriate method of procurement or to remain within delegated purchasing authority (Section 1.6.2.1.5 of the Procurement Procedures Manual).

#### Part A

The first part of this test involved discussions with the Project Procurement Analyst and the Internal Controls Advisor to gain an understanding of processes involved in the following:

- Monthly reporting to PTV directors from system to issue to directors
- Weekly reporting to PTV directors from system to issue to directors
- Transactional procurement from system reporting through to audit procedures
- Contract Spend in CMS and Oracle from interrogation through to reporting.

Further discussions with the Internal Controls Advisors indicated that these reports form the basis for monthly spot checks of contracts entered into CMS. A sample of five activities entered into CMS for the month are selected and reviewed for the following:

- Planning/Approval to Procure
- Tender Evaluation
- Award and Execution (Recommendation to Award)
- Payments
- Project/document management

#### Part B

A sample of 3 monthly reports were selected (July, August and September) and checked that the reports expenditure has not exceed monthly approvals, Purchase Orders raised just below delegation threshold investigated and that the frequency of POs raised by suppliers had been investigated.

Individual discussions were held with the following members of the Procurement Team to discuss the processes undertaken when expenditure has exceed monthly approvals, Purchase Orders have been raised above their financial delegation and if there are any cases of order splitting:

- Acting Chief Procurement Officer
- Procurement Manager - Customer Experience
- Senior Procurement Specialist - Projects
- Procurement & Sourcing Manager
- Senior Procurement Specialist.

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## Appendix 4 – Classification of Internal Audit Findings

Rating	Definition	Action(s) required
	Issue represents control weaknesses, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives	<ul style="list-style-type: none"> <li>Requires immediate notification to the Audit and Risk Committee.</li> <li>Requires CEO/CFO/Executive Management attention.</li> <li>Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days.</li> <li>Separately reported to chairman of the Audit and Risk Committee and executive summary of report.</li> </ul>
	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives	<ul style="list-style-type: none"> <li>Requires prompt management action.</li> <li>Requires executive management attention.</li> <li>Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months.</li> <li>Reported in executive summary of report.</li> </ul>
	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives	<ul style="list-style-type: none"> <li>Requires short-term management action.</li> <li>Requires general management attention.</li> <li>Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months.</li> <li>Reported in executive summary of report.</li> </ul>
	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives	<ul style="list-style-type: none"> <li>Requires management action within a reasonable time period.</li> <li>Requires process manager attention.</li> <li>Timeframe for action is subject to competing priorities and cost/benefit analysis, e.g. 9-12 months.</li> <li>Reported in detailed findings in report.</li> </ul>

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# Procurement Reform Post Implementation Internal Audit Report

## Appendix 5 – Consultations



The table below outlines all personnel who were involved in discussions and contributed to the findings detailed in this Internal Audit Report.

Name	Title
	Acting Chief Procurement Officer
	Procurement Manager - Customer Experience
	Project Procurement Analyst
	Senior Procurement Specialist - Projects
	Procurement & Sourcing Manager
	Senior Procurement Specialist
	Internal Controls Advisor

### Distribution for Action

- Acting Chief Procurement Officer
- Procurement Manager - Customer Experience

### Distribution for Information

- Mark Wild – Chief Executive Officer
- Manager Audit and Assurance
- Audit and Risk Committee – Chair and Members

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## Procurement Reform Post Implementation Internal Audit Report

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