

IBAC - OPERATION DUNHAM

**Statement of the Secretary
Department of Education and Training**



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**Secretary
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A. OPERATION DUNHAM: THE WAY FORWARD

1. At the conclusion of the Operation Dunham public examinations, the Department of Education and Training (**DET / the Department**) must now continue the work of my predecessor, Richard Bolt, to identify and critically examine the historical conduct, within DET, that contributed to:
 - (a) the awarding of the Ultranet contract to CSG;
 - (b) the surrounding circumstances, including the entirely unacceptable payment of just under \$1 million of public funds to Alliance Recruitment; and
 - (c) the ultimate failure of the Ultranet project to deliver the anticipated benefits to Victorian schools.
2. Identifying and understanding the full context in which this conduct occurred is the first step. The second step is to develop and implement a further series of careful reform measures that will, to the greatest extent possible, address the shortcomings of policy, process and culture that were exposed during the examinations.
3. That second step extends beyond DET. The Victorian Secretaries Board (**VSB**) whose membership includes the Secretaries (CEOs) of all State Government Departments, has carefully followed the progress of the public examinations. This statement includes the "whole of government" response that the Secretaries now propose to implement across every Department.
4. These commitments and actions build on both the program of reforms being implemented by DET after Operation Ord and recent work by the VSB on strengthening integrity in the Victorian Public Sector.
5. I now turn to the contributing conduct:-

Inappropriate relationships / collusion
6. It is clear that there were inappropriate and collusive relationships between Departmental employees and the private sector. The evidence reveals that private firms gave substantial gifts to Departmental employees, including domestic and international flights, excessively generous accommodation and extravagant meals. The firms involved – including but not limited to CSG – were subsequently awarded substantial Departmental contracts. There can be no doubt that those directly involved were aware that such 'perks' were improper and contravened the Department's probity guidelines.
7. A core group of senior staff circumvented DET procurement processes for their own benefit. Most, if not all, were aware of the proper processes, and deliberately avoided them. Indeed, through the course of the public examinations it became clear that senior DET officials were party to the disclosure of confidential tender information to CSG and others via direct and covert means.
8. It appears the improper conduct was able to continue due to the close relationships – developed over many years – within the core group, which remained intact as promotions went to group members who occupied key roles in decision processes. This arrangement blocked independent staff from being involved in (or being sufficiently informed about) tender and expenditure decisions.

9. It appears the Ultranet tender Board was dominated by a Deputy Secretary, who exerted complete control over the process. To avoid scrutiny, staff were instructed to incorrectly code project costs and were encouraged to use false statutory declarations to obtain reimbursements for personal expenses.
10. It is also clear that an atmosphere of fear and bullying deterred people from speaking out. This same culture of bullying by the same cohort contributed to the conduct that was the subject of Operation Ord.

Compromised tender processes

11. Weak (and at times non-existent) adherence to/monitoring of proper tender and procurement practices enabled individuals to sidestep the proper process.
12. In the Ultranet tender, a series of red flags were raised which should have resulted in the termination of the project, or, at least, a change in direction. For example:
 - (a) The tender criteria was advantageous to one tenderer.
 - (b) Certain evaluation team members lacked independence.
 - (c) The high evaluation score of the CSG/Oracle consortium was subject to requests for clarifications and demonstrations which were not provided.
 - (d) The Board ignored probity advice when selecting the tenderer.
 - (e) The Board short-listed only one tenderer – so there was no competitive tension to facilitate a better product or better value.
13. The authorisation of a contract with Alliance Recruitment for \$999,996, seemingly to avoid the additional scrutiny on contracts over \$1 million (and knowing that the money would be transferred to CSG) is a grievous breach of government procurement principles. It represents an abrogation of the standards required of senior executives.

A failure to act on advice

14. Independent senior probity advisers are appointed to protect the integrity of major procurements. In that context, they provide advice and assurance about the integrity of the tender process to the Project Board, Secretary and key stakeholders. This is a critical component of the management and oversight of large projects involving major procurement.
15. It is clear from the evidence that the concerns raised by Ms Dalton, which should have been enough to cause the Ultranet tender process to be completely revisited, were not acted on. The replacement of the Chair (a Deputy Secretary) with a subordinate – in circumstances where the Deputy Secretary remained on the Board – could hardly be considered an adequate response to the seriousness of Ms Dalton's concerns.

Conflicts

16. During the hearing, former senior executives suggested – evidence to the contrary notwithstanding – that they complied with their Victorian Public Sector Code of Conduct obligations or did not sufficiently understand their obligations. Given their seniority and long history as senior public servants, this explanation does not seem credible. Conduct featuring:

- (a) the use of false statutory declarations to obtain reimbursements;
- (b) the use of market-sensitive information for private profit;
- (c) unnecessary travel which confers no obvious benefit on the Department;

falls short of the standard required of all public servants.

Project design and implementation

17. Major projects, including ICT projects, can bring substantial benefit to the community through better delivery of services (in this case, education). As with all ambitious major projects, good governance – incorporating rigorous oversight, clear business cases and transparent decision-making – is essential to keep the project on track and project outcomes consistently in sight. We should not be deterred from embarking on major projects that will deliver substantial benefit; rather, we should heed the lessons learned here to make sound investment choices and deliver maximum value to the Victorian community.
18. The evidence indicates that the Ultranet Project fell well short of basic project management principles. Problems included a lack of planning, inaccurate project costings and a general failure of governance and oversight.
19. I now turn, first, to the VSB's response to the conduct identified during the hearings and, second, to the targeted commitments of DET.

Whole of Government Response

20. In response to the matters raised in Operation Dunham, the VSB has announced a series of reforms and reviews. By way of overview, the VSB has committed, individually and collectively, to strengthening a robust integrity culture across the Victorian Public Sector. It is underpinned by first, a recognition of the importance of ethical leadership and decision-making at all levels of the public sector and, second, by elevating the profile of the VSB Corruption Prevention and Integrity Subcommittee to drive the VSB's Integrity Stream.
21. This is a set of specific reforms, accompanied by a program of continuous quality improvement and assurance measures.
22. In particular, the VSB has committed to the following:

Ethical Leadership

23. The VSB will support ethical leadership and decision making at all levels across the Victorian Public Sector. This will include support for the development of an Institute of Public Administration Australia (Victoria) (IPAA) Integrity Leadership Training Program in consultation with the Victorian Public Sector Commission. In addition, a greater emphasis will be placed by all Departments on inclusion of integrity in Executive Officer performance agreements.

Conflicts of Interests

24. Within 6 months:
 - (a) The VSB, through the VPSC, will review (and revise, as required) policies and procedures for identifying and managing actual and potential conflicts

of interest, and make recommendations with respect to enforcement by Departments and agencies. The review will encompass:

- (i) consideration of real time disclosure of conflicts by executives and key senior staff; and
 - (ii) identifying "High Risk" functions within the Victorian Public Sector.
- (b) The VSB, in consultation with the Victorian Government Purchasing Board, will investigate means to ensure commercial partners and suppliers act in an ethical manner when dealing with government. VSB will explore the imposition of ethical attestation requirements on major suppliers and the introduction of integrity commitments.

Gifts, Benefits and Hospitality

25. Within 6 months:

- (a) The VSB, through the VPSC, will review and revise Gifts, Benefits and Hospitality policies and guidance to ensure appropriate distinctions are drawn between inducements for favourable decisions and basic hospitality or courtesies.
- (b) The VSB, through the VPSC, will identify and recommend appropriate Australian and/or international better practice standards with respect to preventing the acceptance of inducements.

Tendering and Procurement

26. Within 9 months: the VSB, through the Department of Treasury and Finance (DTF) and the Department of Premier and Cabinet (DPC), will develop options to improve assurance for major ICT projects, including requirements for independent project experts to provide ongoing quality assurance at key points and, where needed, provide advice to government.

Code of Conduct

27. Within 9 months: the VPSC will review the guidance given to Departments for managing breaches of the *Code of Conduct for Victorian Public Sector Employees 2015 (Code of Conduct)*.

Integrity Structure and Governance

28. The VSB has launched a redesigned People Matter Survey for 2016 developed by the VPSC reflecting and focused on the refreshed Code of Conduct for the Victorian Public Sector. The survey will include information about the level of integrity and ethical behaviour literacy across Victorian Public Sector employees.

29. In addition, VSB is engaged in a whole of government integrity reform work plan which includes:

- (a) building a robust, integrity culture across the Victorian Public Sector; and
- (b) demonstrating ethical leadership and championing integrity reforms.

Protiviti report commissioned by DET

30. Building on the approach that I adopted during Operation Ord, the Department engaged an independent expert advisory firm, Protiviti, to provide me with objective advice about the issues raised during the Dunham hearings.
31. Protiviti's advice broadly falls into three categories: issues surrounding the use of consultants and private sector contractors; conflicts of interest and Code of Conduct; and large or high risk projects.
32. In that context, I am now examining the following:
- (a) *Issues surrounding the use of consultants/private sector contracts.* Operation Dunham has identified significant gifts from the private sector, consulting and accounting firms. It is reasonable to assume that these gifts are for the purpose of gaining significant revenue for their organisation. DET now has a consistent internal framework for staff around policy awareness and monitoring of gifts and hospitality from external bodies. However, there are limited external requirements placed on these external parties to attest that they have not breached DET guidelines. Other jurisdictions require such attestation. DET could consider, among other things, requiring external parties to attest that their organisation and staff have complied with Department ethical behaviour guidelines.
 - (b) *Conflict of interests and Code of Conduct.* A suite of policies and processes exist that cover Conflict of Interest and employees' Code of Conduct. DET could consider how to bring an on-going and continued focus to these for all staff as part of business as usual.
 - (c) *Large or high risk projects.* Operation Dunham highlighted significant failings in large scale project management. Other jurisdictions have implemented stronger assurance mechanisms for large scale projects. In addition to the recent and on-going reforms, and subject to materiality, risk and cost-benefit return considerations, DET could consider / confirm:
 - (i) Defining what is a "large or high risk" project that requires greater assurance mechanisms.
 - (ii) Audits to be consistently performed at key stages of large or high risk projects, particularly to review the business case and to test the benefits, the robustness of the budget and the post-project benefit realisation.
 - (iii) Developing a formal project/program management methodology for the Department to guide the delivery of projects/programs.
 - (iv) Requiring the project boards for large or high risk projects to have independent members and confirming that the project board is responsible for delivering the project outcomes.
 - (v) That probity advisors have reporting lines other than to the project board.

DET commitments

33. In addition to the “whole of government” reforms outlined above, and building on the Protiviti advice, I make the following initial commitments on behalf of the Department:
- (a) The Department will introduce a requirement that contractors and suppliers refrain from offering inducements to public sector employees.
 - (b) The Department has established Terms of Reference to conduct an audit of the Declaration of Private Interests system which affects close to 2,000 employees including executives, managers (with a delegation to spend over \$50,000) and all school principals. The audit will consider current policy, compliance gaps, controls and the Department’s response to the information received in the Declarations. It will also consider whether the current point-in-time policy should be replaced with a requirement to update private interests in real time.
 - (c) The Department will introduce criteria to define large and high risk projects, and review and strengthen assurance mechanisms for this category of projects. This will include, but not be limited to, consideration of requirements for project board membership, and an increased role for internal audit with respect to key stages of project development and delivery.
 - (d) As part of planned Procurement and Financial Management Reforms, the Department will:
 - (i) improve funding acquittal and assurance processes;
 - (ii) improve financial reporting;
 - (iii) establish an operating structure within the Financial Services Division (FSD) that supports financial controls within the three lines of defence model which are well defined and articulate the finance function role as a second line of defence; and
 - (iv) build a stronger foundation for effective risk management through implementation of a robust financial monitoring framework, including a data analytics strategy for FSD to enable more sophisticated monitoring of compliance with relevant policies and procedures.
 - (e) I will implement (and continue to implement):
 - (i) the recently endorsed Executive Rotation Program which aims to maximise leadership capability through a short term placement in a new area, and encourages expressions of interests from staff other than the next in line where there are short-term vacancies; and
 - (ii) the planned rotation of senior staff who have been in their role for an extended period.
34. The Department will also examine other options, particularly those observations of Protiviti, to require potential suppliers to adhere to DET guidelines.

B. DETAILED DISCUSSION: LEARNINGS FROM DUNHAM

1. Leadership

Investing in good, ethical leadership at all levels

35. The Department is committed to ensuring that our leaders – at all levels of the Department – ‘live’ public sector values, lead with integrity and build a culture of high performance.

Disrupting networks

36. The Department has put in place strategies to prevent unhealthy networks from forming.
37. As outlined above, the Department has formally committed to implementing the Executive Rotation Program. This program involves a short-term placement to an area outside the executive’s current role. The expectation is that all executives will participate in this program, which will be used in leadership development plans in the next performance cycle.
38. The Department has also formally committed to implementing the planned rotation of senior staff who have been in their roles for an extended period.
39. Aside from preventing unhealthy networks, there are real benefits in rotating senior staff: it will enhance skills, introduce new ways of working and create stronger organisational understanding.

Embedding integrity

40. The Department is in the process of a continuous improvement Integrity Reform Program where, over time, integrity becomes a cultural norm.
41. Relevantly, the Integrity Reform Program is guided and supported by a Statement of Strategic Intent, a new DET operating model, an Integrity Leadership Group Initiative and a new governance model. These initiatives are discussed further, below.
42. In 2015, the Department introduced the Integrity Leadership Group Initiative. These groups comprise school-based and corporate staff, who have been peer nominated due to their integrity and capacity to lead change. The groups have been developed to support the new Portfolio Integrity Committee build and maintain the highest standards of integrity and public trust across the Department.
43. The newly formed Integrity Leadership Groups will support the work of the Portfolio Integrity Committee by:
- (a) Promoting the integrity reforms across teams, groups and divisions, networks, schools, school clusters, professional networks and regional offices;
 - (b) Contributing ideas and expertise to support the Portfolio Integrity Committee’s decision making;

- (c) Bringing integrity concerns at central office, in schools, networks and regions to the attention of the Committee;
- (d) Proposing and leading activities to promote the reforms and influence change; and
- (e) Promoting reforms across whole of government and external networks, schools, early years services, training providers, community groups and local government, and bringing ideas from other agencies and organisations back to the Committee.

Culture of contestable ideas and frank and fearless advice

44. The public service must be underpinned by the values of integrity and impartiality – an apolitical professional class providing “frank and fearless” advice to the government of the day.
45. In a speech to the IPAA Victoria Annual Fellows Dinner in 2015, Chris Eccles, Secretary of the Department of Premier and Cabinet, said that frank and fearless advice:
- (a) provides the information Ministers need, as well as the information they might want, to make a decision;
 - (b) deals honestly with issues, including those that are difficult and complex;
 - (c) is fair, objective, and ignores a public servant’s own private or political interests;
 - (d) advises Ministers of risks and potential outcomes;
 - (e) adds apolitical value to the commitments of the government of the day;
 - (f) is politically neutral, but not naïve, allowing the public service to provide trusted advice to successive governments; and
 - (g) above all, respects the right of democratically elected governments, having received that advice, to pursue their lawful policy agenda, with the expectation that their agenda will be implemented faithfully and diligently.
46. The Department is working hard to foster an environment where critical reflection and debate is expected and encouraged, and is building a culture that encourages staff to escalate issues at the earliest opportunity. The Department is developing strong, system-wide safeguards that, as far as possible, cannot be manipulated or circumvented, and is raising awareness of how staff can voice their concerns.

Commitment to transparency and accountability by our leaders

47. In 2015, all Department executives signed up to a Leadership Charter and set of capabilities, as a signal of our commitment to cultural change.
48. The Charter makes clear to Victorians that our leaders will: work as one; be accountable – and work with integrity; invest in and empower staff; and always focus on the children, young people and families they serve.

49. The Leadership Charter and capabilities form the foundation of a broader leadership development and assessment program to be delivered in 2016. This includes a tailored development program for each executive officer across the Department.
50. In April 2016, the Deputy Secretaries and I will move to an open plan environment. This change will break down barriers between groups, provide opportunities to work together and learn from each other, and bring a strategic vision to our work.
51. The Department's senior executive will visibly model robust and collaborative leadership.

2. Procurement

52. Since 1995, the Victorian Government Purchasing Board (VGPB) has set government procurement policies, advised on and monitored compliance with those policies, and reported irregularities to Government. It is independent of DTF and reports directly to the Minister for Finance.

Past Procurement policy and practice

53. At the time of the Ultranet tender, the VGPB had accredited the Department's Accredited Purchasing Unit with responsibility for the Department's procurement activities up to \$1 million in value. Goods and services valued above this amount required approval from the VGPB. VGPB approval was complementary to, rather than a replacement of, internal assurance processes.
54. The \$1 million threshold operated in isolation from any qualitative analysis of the risk, profile or strategic purpose of the procurement.
55. The Ultranet Project was subject to the DTF Gateway Review process. A "Gateway Review" is a review by independent reviewers (appointed by the Infrastructure Policy and Assurance Branch of DTF) who provide independent and confidential advice in relation to project progress and the likelihood of delivery success.
56. The Ultranet received four "Red" ratings and one "Amber" rating in its Gateway Reviews.¹
57. The Gateway Review process was not designed to elevate the concerns of the independent reviews regarding the project to central agencies or Ministers. Recommendations arising from Gateway Reviews were confidential to the Senior Responsible Owner (SRO). As a result, DTF had no monitoring role with respect to the implementation of individual recommendations coming out of the Gateway Reviews. The onus was on the SRO to action any recommendations made by the Gateway Review team. The SRO for the Ultranet was shared between Jeff Rosewarne and Darrell Fraser.
58. However, the Department cannot and should not rely on central agency scrutiny of its procurement activities in order to be assured that it is transparent, accountable and contracting for value for money. Since 2013, there have been significant advances in procurement management at both a whole of government level and within the Department.

¹ A Red rating indicates "critical and urgent: action on recommendations should be taken immediately". An Amber rating indicates "critical and not urgent: actions on recommendations should be carried out before further key decisions are taken".

Current Procurement policy and practice

Central agency monitoring

59. In February 2013, the VGPB introduced a new policy framework for government procurement, which emphasises good governance, accountability and strategic planning. The new framework consists of five clear principles-based policies.
60. DET transitioned to the new policy framework on 1 July 2014. Accountability for procurement now lies with the Secretary as the Accountable Officer. The VGPB has a strategic oversight role for procurements of goods and services that are complex or high risk.
61. Major ICT projects now receive project advice and assurance from DTF that the project can proceed successfully to the next stage. Since 2012, infrastructure or ICT procurement that meets any of the following criteria can be nominated to receive the additional scrutiny and support of DTF under the High Risk and/or High Value (HRHV) Gateway process:
- (a) a total estimated investment greater than \$100 million;
 - (b) identified as high risk using an approved risk assessment tool; or
 - (c) determined by the Government as requiring increased oversight.
62. The HVHR framework is designed to provide the Government with greater confidence that major infrastructure and ICT investments will be successfully delivered. The HVHR framework requires additional DTF scrutiny and Treasurer approval at key milestones throughout a project's lifecycle to provide increased assurance that projects have robust business cases, will be completed within the approved budget and schedule, and will deliver the intended benefits.
63. Pursuant to DTF's Investment Lifecycle Guidelines, HRHV ICT investments now require the Treasurer's approval at the following stages:
- (a) business case – assessing the project's deliverability before government funding is considered; and
 - (b) tendering:
 - (i) prior to the release of expressions of interests;
 - (ii) prior to the release of requests for tender;
 - (iii) prior to the announcement of the preferred bid;
 - (iv) prior to signing contracts and any major contract variation.
64. Gateway Reviews are now mandatory for HVHR projects (including ICT projects) at all six procurement stages.² All individual recommendations in Gates 1 to 4 in a Gateway report with a "Red" rating must be reported to the Treasurer outlining the risk mitigation strategy.

² Gateway Review 1: Strategic assessment; Gateway Review 2: Business case; Gateway Review 3: Readiness for market; Gateway Review 4: Tender decision; Gateway Review 5: Readiness for service; Gateway Review 6: Benefits evaluation.

65. This is a significant change in DTF's policy. Previously, recommendations arising from Gateway Reviews were confidential to the SRO for the project within the Department. The removal of confidentiality from assurance advice on projects is a welcome reform that allows appropriate escalation where the risk ratings warrant such action.
66. DTF now prepares Major Project Performance Reporting quarterly for Cabinet which focuses on HVHR projects.

Department processes strengthened

67. In addition to the increased central agency monitoring and advice, the new VGPB framework has resulted in the following changes to the Department's procurement processes.
68. The Department applies the following VGPB principles to all of its procurement activity: value for money, accountability, probity, and scalability.
69. The approval framework for procurement activity is scaled according to the level of procurement, complexity, risk and value. Procurement of greater risk, complexity or value must be approved by the Procurement and Probity Committee (PPC) or the Chief Procurement Officer (CPO). Procurement of low value, complexity or risk is approved by the Procurement Owner and Financial Delegate, in accordance with a pre-determined market approach and governance process.
70. The Procurement Division:
 - (a) is now led by a CPO and Procurement Director, both of whom must have specialist procurement expertise;
 - (b) publicly releases a procurement forecast activity plan twice annually to alert the market to impending tenders;
 - (c) periodically undertakes randomised audits of procurement activities; and
 - (d) is developing improved procurement capability and accountability across the Department.
71. Procurement Category Managers are responsible for different categories of procurement and provide advice and oversight for procurement plans and actions throughout the life of the procurement processes in each of their respective categories. This is designed to enable Category Managers to see trends and behaviours and identify irregularities.
72. Since 2014, the Department has operated an interactive intranet portal which centralises and standardises all procurement activity in the Department. The system has the following advantages:
 - (a) all procurement activity must be commenced on the central portal, which enables the Procurement Division to see all procurement across the Department;
 - (b) it dictates the steps that must be taken in a procurement activity. The steps will differ depending on the specific features and complexity of the procurement;

- (c) it removes, as far as is possible, subjectivity and discretion by requiring that a business unit take all of the required steps in the procurement process, in the appropriate order, before a purchase requisition can be made; and
 - (d) it alerts the Procurement Division when a business unit has made two or more financial variations to a contract representing over 10% of the total value of the contract.
73. The Procurement and Probity Committee now provides strategic oversight to the Department's corporate and regional offices' procurement activities to ensure value for money, accountability and probity. This includes:
- (a) ensuring appropriate policies, systems and processes are applied;
 - (b) reviewing procurement activity for compliance with policies, procedures and probity and approving:
 - (i) individual procurement activity that is "strategic, leveraged and focused" within the Department's risk framework;
 - (ii) "significant procurements" that have not been identified in the Committee's published procurement activity plan;
 - (iii) procurement activity the CPO determines requires PPC endorsement;
 - (c) approving the procurement of certain goods and services before they can be procured by the relevant business unit;
 - (d) providing assurance to the Secretary (the Accountable Officer) that procurement activities comply with the VGPB supply policies and the *Financial Management Act 1994*; and
 - (e) providing guidance in relation to the prioritisation of procurement activities, procurement capability of staff and the resources required to support procurement activity.
74. The Procurement and Probity Committee has the following governance features:
- (a) it is comprised of executive class members from all Department Groups and reports to the Executive Board;
 - (b) it is chaired by the Deputy Secretary, People and Executive Services Group, who does not have management responsibility for the Procurement Division;
 - (c) it develops an annual work plan, outlining its key areas of focus and "significant projects" for the year; and
 - (d) can refer any new procurement activity that is not in the procurement forecast activity plan but which is considered to be particularly complex or high risk to the Secretary.

Better Governance

75. The new DET operating model, approved in November 2015, places a strong focus on integrity and accountability. The eleven new governance committees are central to the Department's new operating model.
76. The committee structure has been designed to increase the accountability of, and scrutiny over, business units, to encourage enterprise decision making, and to support more collaborative leadership. The committees do this in the following ways:
- (a) committee membership is drawn from a cross-section of Groups, to avoid self-interested decision-making and to allow for fresh, critical eyes;
 - (b) the Chair does not have management responsibility for the remit of the committee, which reduces the risk of conflicts of interest in decision-making;
 - (c) clear behavioural expectations (such as implementing and promoting public sector values, acting in the public interest, acting according to their public duty, and supporting the integrity culture through transparency and accountability) are included in each committee's Terms of Reference, setting a high standard of conduct for all members;
 - (d) conflict of interest processes have been strengthened and are a standing agenda item for each meeting;
 - (e) committees have the ability to co-opt the expertise of external specialists to ensure that the Department draws on the best available expertise to build and maintain understanding of leading market practice and knowledge;
 - (f) committees have direct oversight of project governance and management within their portfolios, and are accountable for project delivery; and
 - (g) from April 2016, cross-committee reporting will be introduced, providing additional specialist scrutiny in certain circumstances.
77. In 2015, I appointed a Principal Governance Advisor to the Office of the Secretary. The Principal Governance Advisor will assist each Committee to review its performance, and will build staff capability. This specialist role is responsible for ensuring information flows between Departmental committees and the Executive Board; managing and further developing the Department's corporate governance structure and processes; regularly reviewing the alignment between members' capabilities and the Committee's requirements; and identifying issues and providing governance advice.
78. In addition, transparency around Executive Board decision-making has been enhanced through the development of a governance portal where certain decisions and communiques from Executive Board can be published for access by all Department staff.

Financial management, authorisations and delegations

79. The ability of former senior officials to hide the actual cost of the Ultranet Project underscores the criticality of the reforms to the Department's governance and financial management practices.

80. The Department has already taken steps to ensure that those with financial delegations are aware of their responsibilities when approving expenditure. The Department has put in place tighter controls for month end processes to ensure that transferred costs are supported by sufficient documentation and approvals.
81. With respect to the use of corporate credit cards:
- (a) It is a condition of issuance that credit cards only be used to pay for Department business, goods and services. Only staff with a financial delegation can be a cardholder.
 - (b) In 2015, the Department instituted tighter controls over credit cards. The FSD undertakes monthly checks of a sample of cardholders' transactions to validate business use, appropriate approval and supporting documentation. Any excessive use of statutory declarations in lieu of original invoices is captured through this process.
 - (c) Further, Internal Audit undertakes bi-annual checks of credit card transactions and usage through data analytics. This exercise identifies anomalous transactions and validates adherence to business rules.

Three Lines of Defence

82. The "Three Lines of Defence" is a comprehensive risk management framework that helps clarify roles and responsibilities related to risk management. The first line is operational, embedding risk and control in day to day operations. The second line is an oversight function, requiring effective policies and procedures. The third line is internal and external audit.
83. DET is strengthening the three lines of defence model. For example:
- (a) The Risk and Decision Unit is now physically and organisationally separated from the Integrity and Assurance Division (including Internal Audit), creating a stronger delineation between the second and third lines of defence.
 - (b) The Department's Procurement and Financial Management Reform Program, led by the new Deputy Secretary, Infrastructure and Financial Services Group and new Chief Financial Officer, is strengthening our second line of defence by shifting the focus of the FSD from a transactional and processing role to one of active oversight and control.
84. As its next step, the Department will build risk management capacity and capability in priority business units, including a greater focus on controls, self-assessment and training for the first line of defence. This work is connected to the Department's ongoing integrity reform agenda.

Qualified/capable people

85. Financial delegates must understand the obligations that come with spending public money. Since 2013, financial delegation training has been mandatory for all financial delegates.
86. Specialist external advice, particularly where the advice is technical and where independence from the administration is required, will always have its place in the management of the Department. However, the Department is committed to building

the core competencies of staff so that the Department's use of external advisors is strategic and deliberate.

87. The Department's project management capacity has recently been enhanced by the creation of a Program Management Office (PMO). A key aspect of the PMO's role is to build project management capability across the Department to support the delivery of key initiatives. To facilitate this, the PMO has developed a range of guides, tools and templates for use by Project Boards and is examining ways to ensure Project Board members are appropriately supported to perform their role and responsibilities.
88. For project owners, the PMO provides a framework to support the ability to identify project aims, objectives, deliverables and benefits that can be monitored and evaluated during the project lifecycle including inception, delivery and conclusion.

ICT project management and delivery

89. ICT projects present particular project-management challenges due to the fast changing market, the need to decide between commercial off-the-shelf and custom-built products, and the need to reliably estimate the total project cost.
90. DET is implementing a range of controls to ensure it obtains the best value from public investment in information and/or technology enabled projects. These changes focus on two key areas: choosing the right investments and ensuring the Department implements those things it chooses to do, in the right way.
91. The Department's ICT project management capacity is assisted by the new governance arrangements, including the Information Management and Technology Committee, the Budget and Financial Management Committee, and the Procurement and Probity Committee. In addition, the PMO supports best practice project management throughout the Department.
92. DTF has developed specific ICT technical guidance to address recurring problems identified for ICT projects and can assist the Department with additional assurance on such projects. These are dealt with as a special case HVHR category. This guidance informs the close central agency monitoring that these projects receive.
93. As stated above, DTF and DPC will develop options to improve assurance for major ICT projects including: requiring independent project experts to provide ongoing quality assurance to the project governance team at key points of the Project Assurance Review and, where needed, provide independent advice to Government.

3. Public sector employment

Values and ethics

94. Operation Dunham revealed a disregard by certain senior executives for core public sector values, particularly integrity, accountability, and leadership.
95. All employees in the Victorian Public Service and the Government Teaching Service are bound by the Code of Conduct. In June 2015, all staff were informed of the updated Code, where to find it and who to ask for further information.
96. The Code of Conduct seeks to reinforce and protect the key attributes of the public service: its apolitical nature, responsiveness, effectiveness and accountability. It also seeks to promote the seven public sector values contained in

s 7 of the *Public Administration Act 2004*: responsiveness, integrity, impartiality, accountability, respect, leadership and human rights.

97. In 2015, the Public Sector Commissioner relaunched the Code of Conduct and clarified each employee's obligations in relation to conflicts of interests and gifts, two issues that featured prominently in the corruption surrounding the Ultranet.
98. Relevantly, the Code of Conduct requires that Departmental employees:
- (a) do not use their power at work to provide a private benefit to themselves, their family, friends or associates;
 - (b) observe the highest standards of integrity in financial matters;
 - (c) report behaviour that violates any law, rule or regulation, or represents corrupt conduct or mismanagement of public resources;
 - (d) avoid, declare, and manage conflicts of interest (actual, potential or perceived) wherever possible, and seek advice if they are unsure;
 - (e) only engage in other employment that does not conflict with their Departmental role; and
 - (f) do not – for themselves or others – seek or accept gifts or benefits (including hospitality) that could be reasonably perceived as influencing them, and declare such gifts or benefits.
99. Simply, every single employee in the Department – without exception – is required to behave in the manner prescribed by the Code of Conduct.

Visibility and awareness of the Code of Conduct

100. To hold employees to the standard required by the Code of Conduct, the Department must ensure that all staff know where to find it, and that they 'live and breathe' the values enshrined in the Code of Conduct.
101. To this end, the Department has embarked on a Values Project as part of the Department's cultural reform program. The Values Project will raise awareness of public sector values and firmly embed these values in the Department. Best practice initiatives from New South Wales, South Australia and Tasmania have been tailored to match the Department's specific operating environments.
102. Through the Values Project, the public sector values have been incorporated into existing systems and processes, including:
- (a) Executive performance plans (as of the 2015-16 performance cycle).

Executives are required to demonstrate the public sector values, with a specific focus on integrity, and this has now been embedded into executive performance plans. This will ensure that every leader models high standards of integrity and ethical conduct and actively requires that standard from their staff. Human resources tools and guidance materials have been updated accordingly.
 - (b) DET Victorian Public Service employee performance plans for the 2016-2017 cycle.

- (c) Recruitment, selection and processes.

The public sector values and the Code of Conduct will be incorporated into all new staff induction programs and manager induction programs. This has already occurred for graduate and Senior Education Improvement Leaders induction.

- (d) Position descriptions.

- (e) Updated training programs which now include integrity content. For example, the "Talking finance, dollars and sense" training program, which is delivered to an audience comprising principals, aspiring principals and school business managers.

103. Communicating and embedding the public sector values in the Department is a program of continuous communication and quality improvement, not simply a point in time assessment.
104. The Department is developing a number of integrity tools so that the concepts in the Code of Conduct are readily understood by all employees, and can be meaningfully applied to their job. The tools include eLearning, "working with integrity" booklets, conversation cards that present dilemmas for resolution, manager discussion sheets and bookmarks. These tools are in addition to existing training such as the Department's "Respectful Workplaces" program which addresses discrimination, harassment, victimisation and workplace bullying.
105. To support staff to comply with their obligation under the Code of Conduct to report unethical behaviour, a new 'Speak Up' service has been launched and was communicated to all DET staff in a video message from the Secretary in December 2015. 'Speak Up' is an independently hosted whistleblower style service that allows staff in schools and corporate offices to raise concerns about suspected illegal, corrupt, unethical or negligent conduct. The Secretary reminded DET staff of the availability of the Speak Up service in February this year, and the service was reinforced via a School Bulletin in March this year.
106. Finally, the Code of Conduct is accessible to all staff via the Department's Human Resources webpage. All schools were notified of the updated Code in June 2015 via an all-school circular and all corporate staff were informed of the updated Code via Corporate News in June 2015. Both school and corporate staff were reminded they could find the Code of Conduct on the Department's HRWeb.
107. Decisive employment action will be taken against staff who breach the Code of Conduct.

Conflict of Interests and Declaration of Private Interests

108. The Department's Conflict of Interests Framework was revised in 2015 in line with changes made by the VPSC to its Managing Conflicts of Interest Guide. It comprises the Conflicts of Interests Policy (**Conflicts Policy**) and the Conflict of Interests Toolkit. The Toolkit gives practical examples of when a conflict may arise.
109. This Framework is in addition to the obligation to avoid conflicts of interests imposed by the Code of Conduct, the *Public Administration Act 2004*, *Ministerial Order 1999* and the *Victorian Teaching Institute Code of Conduct*.
110. The Conflicts Policy emphasises that the test for identifying a conflict of interests is:

"whether reasonable and fair minded people would consider that the private interest is likely to influence the public duty such that it would undermine public sector values"

111. The Conflicts Policy (and the Terms of Reference for each of the new governance committees), requires increased scrutiny of conflicts of interests for members of Committees. For example, each governance Committee must:
 - (a) include an assessment of the risk of conflicts of interests in their terms of reference and how they are to be mitigated;
 - (b) address, as a standing agenda item in each meeting, reporting and managing members' conflicts of interests;
 - (c) record any steps taken to manage the conflict in the minutes; and
 - (d) in instances where the Chair declares a conflict of interest, the Deputy Chair will take on the Conflict of Interests responsibilities of the Chair.
112. The Department expects contractors and organisations it partners with to comply with responsible practices in relation to managing conflict of interests.
113. The Conflict of Interests Framework, including the Conflicts Policy and Toolkit, are accessible to all staff via the Department's Human Resources page. The Toolkit is promoted to principals through ongoing Conduct and Ethics Branch presentations.
114. Managers and members of the Principal Class can contact the Conduct and Ethics Branch to seek guidance and advice on managing a conflict of interest. Employees who do not want to raise the conflict directly with their manager can also seek advice from the Conduct and Ethics Branch.
115. A failure to avoid, declare and manage a conflict of interests is a breach of the Conflicts Policy and the Code of Conduct. All employees will be held to strict standards of accountability. Disciplinary action, including potential dismissal, will be taken against staff who fail to avoid, declare or appropriately manage a conflict of interests.

Declaration of Private Interests

116. All Executive Officers and principals, and any staff members with delegations over \$50,000, are required to make a declaration of private interests (DPI) on their appointment, and then annually thereafter, by completing the DPI process.
117. As previously stated, the Department has established Terms of Reference to conduct an audit of the DPI system which affects close to 2,000 employees including executives, managers (with a delegation to spend over \$50,000) and all school principals. The audit will consider current policy, compliance, gaps, controls and the Department's response to the information received in the Declarations. It will also consider whether the current point-in-time policy should be replaced with a requirement to update private interests in real time.
118. Further, the audit will analyse the 2015-2016 DPI data, focusing on the high risk areas, to identify anomalies that could indicate fraud, corruption or unmanaged conflicts of interests. The auditor will investigate these anomalies and recommend improvements for reporting DPIs.

Gifts, benefits and travel

Gifts and benefits – including hospitality

119. The obligations of every single public sector employee in relation to gifts and benefits was clarified when the VPSC relaunched the Code of Conduct in 2015.
120. In addition to the Code of Conduct, various obligations are imposed on Departmental employees through the Department's Gifts, Benefits and Hospitality Policy (**Gifts Policy**), which was clarified in October 2015. The Gifts Policy defines what constitutes a "gift", "benefit" or "hospitality".
121. All offers and acceptance of a gift worth more than \$100 (nominal value) must be registered:
- (a) Non-school-based employees must register the offer or acceptance of a gift on the Department's gift register, by sending a Gifts Declaration Form to the Executive Director of the Procurement Division. The Procurement Division administers the gift register, and the Portfolio Audit and Risk Committee reviews the Gifts register annually.
 - (b) School-based employees and school councillors must register the offer or acceptance of a gift on the school's gift register. The register is monitored by the school principal and annually reviewed by the school council.
122. All staff should adopt a common sense approach, informed by the public sector values of integrity and accountability. For example, teachers may keep a thank you gift (under \$100), and do not need to register such a gift.
123. The Procurement Division and the Portfolio Audit and Risk Committee review the Department's gift register annually. The Department also attests annually to the VPSC that it has met its obligations in this regard.

Travel

124. Consistent with the evidence that I gave to IBAC in Operation Ord, travel is not an entitlement in the Department. Travel must only occur in a manner that contains costs, adheres to the highest probity principles, and reflects clear value and benefit for the education portfolio.
125. Conferences can be important for professional development. However, the travel must achieve outcomes that are not possible without the travel. Frequent travel for any individual should be limited. Group travel is limited to essential, appropriately skilled staff.
126. The Department's revised Travel Policy has the following features:
- (a) Staff presenting papers must have their presentation pre-approved for quality and portfolio relevance by the travel approver, or by an expert advisor nominated by the travel approver.
 - (b) All overseas travel for Departmental staff must be approved by the Secretary. All overseas travel for school-based staff must be approved by the Deputy Secretary, Regional Services Group.
 - (c) Offers of funded travel from any organisation sponsoring conferences or industry tours should be declined unless it can be demonstrated that there

is an absence of actual, potential or perceived conflict of interest or improper influence, either direct or indirect.

- (d) Within fourteen days of return, travellers must submit a travel report – where any costs associated with significant variations from the approved budget must be submitted and explained – and an expense acquittal.
 - (e) The travel approver must oversee the complete cycle of travel policy and procedure compliance, and must assess the travel report and expense acquittal for discrepancies and non-compliance.
127. The Gifts Policy and the Travel Policy are accessible to all staff on the Department's Human Resources page (HRWeb).
128. The Department has undertaken significant work to promote the Travel Policy. The Regional Services Group has issued regular advice to schools, established registrars for each region to provide support and guidance, developed an online travel log and approval function and has held a number of presentations with principal networks to raise awareness and understanding of the Policy.
129. A breach of the Gifts Policy or the Travel Policy may constitute misconduct and may lead to disciplinary action. In addition, staff who breach or are non-compliant with the Travel Policy may not be eligible for any future travel.
130. Under the revised Travel Policy, the following measures exist to ensure accountability and transparency:
- (a) The Department provides quarterly travel monitoring reports to the Executive Board.
 - (b) All international education portfolio travel is collated and will be published in the Department's annual report.

C. CONCLUSION

131. Our public education system provides immeasurable value to Victoria's children and young people, and to the economic and social prosperity of our State. As such, we must uphold the highest ethical standards and ensure that as servants of the public interest, our conduct consistently meets the public's highest expectations of integrity.
132. This understanding lies at the heart of the trust placed in us by the Victorian community. Without it, confidence in public education is eroded.
133. Ultimately, integrity and ethical conduct rests in the hands of every one of us – of every teacher, principal, regional and head office staff member and executive officer – and in the way we make decisions about every aspect of our work.
134. These decisions, from the most basic operational elements of budgeting, travel or employment, through to the oversight of major procurement and strategic policy options, are founded in the same ethical standards.
135. More than just compliance with procedural requirements, our adherence to these standards is about demonstrating understanding at every level of our system that public education stands for excellence, equity, public value and integrity.

136. Through Operations Ord and Dunham, IBAC has carefully examined and exposed patterns of conduct that have no place in a modern State Government department. Together with my colleagues on the Victorian Secretaries Board, I am committed to reforming the culture and the practices that have contributed to that conduct.
137. The work undertaken by the Department to date, and the further undertakings made in this statement, are part of a short and long term program of organisational change. We are building a strong ethical framework and culture to underpin the delivery of education in Victoria.

Appendix A: Glossary of terms

Alliance Recruitment means Alliance Recruitment Pty Ltd

CSG means CSG Proprietary Limited

Code of Conduct means the *Code of Conduct for Victorian Public Sector Employees 2015*

Conflicts Policy means the Conflicts of Interests Policy of the Department of Education and Training

CPO means Chief Procurement Officer

Department means the Department of Education and Training and its predecessors

DET means the Department of Education and Training and its predecessors

DPC means the Department of Premier and Cabinet

DPI means Declaration of Private Interests

DTF means the Department of Treasury and Finance

FSD means the Financial Services Division

Gifts Policy means the Gifts, Benefits and Hospitality Policy of the Department of Education and Training

HRHV means High Risk High Value

IBAC means the Independent Broad-based Anti-corruption Commission

IPAA means Public Administration Australia (Victoria)

Operation Dunham means the IBAC investigation into allegations of corruption relating to the Department's Ultranet project.

Operation Ord means the IBAC investigation into the Department of Education, public hearings for which took place from 27 April to 30 June 2015.

Oracle means Oracle Corporation

PMO means Project Management Office

PPC means the Procurement and Probity Committee

SRO means Senior Responsible Officer

VGPB means the Victorian Government Purchasing Board

VPS means Victorian Public Service

VPSC means Victorian Public Sector Commission

VSB means Victorian Secretaries Board, comprised of the Secretaries of all Victorian Government Departments, together with the Chief Commissioner of Police and the Victorian Public Sector Commissioner. The VSB coordinates the sharing of information and ideas in response to strategic challenges, provides public-sector wide leadership and promotes collaboration, professionalism and integrity in public administration.