

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 1

That councils communicate to suppliers a clear set of supplier behaviour expectations and the associated consequences for non-compliance.

Summary of response

The recommendation will be:

- ✓ Implemented as described in the report

Action proposed

Council has rewritten its Statement of Business Ethics to stronger emphasise supplier behaviour expectations, along with the sanctions for non-compliance. This document is included in all tender documentation, and a copy is displayed on Council's website under Tenders (home page). An additional schedule has also been included in our tender specifications requiring respondents to acknowledge our Statement of Ethics.

While Operation Jarek was underway, Council produced a document titled "Important Information for Sales Representatives and Contractors". This document highlights that gifts and benefits are not to be offered as part of the procurement process. This information is distributed to sales representatives by Council staff and a copy is displayed on Council's website. An internal procedure has also been prepared to advise staff on how to handle interaction with sales representatives. This procedure has been circulated to all staff and is being circulated at least once per annum, as well as on an as required basis.

We will also be distributing both sets of this information from time to time with creditor payments. A covering letter regarding Council's expectations of supplier behaviour will also be provided. It is intended to undertake this process at least twice per annum with this action included in an internal strategic task lists to ensure that it is regularly carried out.

Supporting material

- Statement of Business Ethics
- Interaction with Sales Representatives Procedure
- Sales Representative Information sheet
- Tender Schedule for Statement of Ethics
- Covering letter regarding supplier behaviour standards – this letter has been issued once to approximately 800 suppliers

Proposed evaluation methods

- Compliance with adopted procedures - General Manager and Procurement Group
- Feedback from Procurement Group – 31 December 2013. Please note the Interaction with Sales Representatives procedure was implemented in September 2011. The feedback from staff is that this procedure has been excellent in allowing staff to not meet with sales representatives, or to set the rules when meeting with sales representatives.

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 2

That councils develop a proactive and comprehensive supplier engagement framework.

Summary of response

The recommendation will be:

- ✓ Implemented as described in the report

Action proposed

The actions proposed are largely as outlined in recommendation one in that the key elements of Council's supplier engagement framework are as follows:

- Communication of Council's Statement of Business Ethics
- Communication of Council's Interaction with Sales Representatives Procedure
- Covering letter to suppliers regarding the standards of behaviour expected, distributed to a sample of suppliers at least twice per annum
- Inclusion of the Statement of Business Ethics in Tender and Quotation documentation
- Pre-tender meetings to include a segment on the Statement of Business Ethics

Supporting material

A number of the above items are included in recommendation one.

Proposed evaluation methods

Feedback from staff on their knowledge of the Statement of Business Ethics and related procedures – It is proposed to undertake a staff survey by 31 December 2013 – General Manager to monitor.

The difficulty with this recommendation is monitoring the behaviour of suppliers. It is not possible to undertake a reliable survey of suppliers' behaviour therefore the only real measurement option available is to potentially monitor non-compliance incidents with suppliers.

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 3

That councils review their codes and policies on gifts and benefits to ensure they effectively communicated expected behaviour in a way that the intended audience can easily grasp.

Summary of response

The recommendation will be:

- ✓ Implemented as described in the report

Action proposed

Prior to Operation Jarek we already had proactive gifts and benefits processes in place, through documented procedures, regular six monthly updates to all staff and training sessions on this topic. Despite our efforts Mr Lapham and Mr Howard chose to ignore our processes.

To increase our efforts in this area we have subsequently:

- Rewritten our Council's gifts and benefits management procedure to further simplify the document and to include disciplinary details. This updated document has been placed on Council's Infonet and is being distributed to staff through newsletters and training
- Emphasis has also been placed on recommendation four which states that any staff with procurement delegations cannot accept gifts or benefits of any kind; excluding token items

The feedback from staff meetings is that staff are very clear on what is expected, and ultimately it is a matter of choice as to whether a staff member complies with these procedures.

Supporting material

- Gifts and Benefits Management – Procedure
- Newsletter - sample

Proposed evaluation methods

- Feedback from staff meetings and / or surveys – Staff survey – 31 December 2013 – General Manager
- Gift register usage – Monitor usage level – General Manager

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 4

That councils ensure their policy provides that all staff who hold financial delegations are prohibited from receiving gifts of any kind.

Summary of response

The recommendation will be:

- ✓ Implemented as described in the report

Action proposed

Council's documented procedures for procurement now state that any staff member with a purchasing delegation cannot accept a gift or benefit of any form. Token gifts such as pens etc are excluded as gifts for the purposes of this procedure.

To strengthen the controls for procurement the wording of our delegations template has been amended to ensure staff in accepting that delegation acknowledge they have read our Statement of Business Ethics, gifts and benefits procedure and sales representatives procedure.

We also intend to write to every staff member with a procurement delegation, once each year, asking them to sign a return confirming they understand our procurement procedures. This will be similar to the process we currently follow for the pecuniary interest returns for designated staff.

Any new staff member that receives a procurement delegation will be issued correspondence to sign confirming they understand these procedures.

Supporting material

- Revised delegation template for procurement
- Correspondence template for new procurement delegations
- Correspondence template for annual review of procurement delegations

Proposed evaluation methods

- Compliance with procedures – Procurement Group – regular meetings
- Monitoring of Gift Register – General Manager
- Feedback from staff – On-going

General Manager to monitor all these items in conjunction with the Procurement Group

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 5

That councils ensure that staff training on gifts has a focus on the disciplinary consequences of accepting gifts.

Summary of response

The recommendation will be:

- ✓ Implemented as described in the report

Action proposed

The powerpoint presentation we use for internal staff training on the Code of Conduct has now been updated with an extra slide to highlight the disciplinary consequences of accepting gifts. This now forms a key part of this training program.

There are limitations in respect to the wording that can be applied in this situation as effectively Council must follow the Award procedures. Examples of incidents, such as the outcomes for some of the individuals associated with Operation Jarek, will be used as supporting information.

Supporting material

- Copy of slide from powerpoint
- As per recommendation four, correspondence to staff with procurement delegations places an emphasis on disciplinary procedures.

Proposed evaluation methods

Staff feedback from training sessions – General Manager – 31 December 2013

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 6

That councils assess which of their staff members operate in an environment where relational selling is commonplace, and equip these staff to recognise and respond to these sales tactics, including the offer of gifts.

Summary of response

- ✓ Implemented as described in the report

Action proposed

Following a review of our procurement delegations Council is the opinion that almost all staff with a procurement delegation are subject to relational selling. As Ballina Shire is a reasonably small regional community (40,000 people) there is a lot of interaction between Council staff, the business community and residents, which increases the risk of relational selling. In respect to training we have held discussions with Adam Shapiro from ICAC, who has conducted corruption / procurement sessions for Council staff. Adam has suggested it may be worthwhile for Council to look at an internal education program, which should cover the signs of relational selling and how to manage them. Issues to be addressed in that training include:

- Sales representatives may try to build relationships with staff through fabricating an interest in their personal lives to win them over
- Sales representatives may directly offer gifts and benefits in an attempt to build a relationship and encourage purchases
- Encouraging staff to be upfront and immediately put a stop to any attempt at relational selling – i.e. when asked about their personal lives, staff should avoid providing any information and redirect the conversation to “business” / when offered a gift state “it is against Council policy and you are making me feel uncomfortable”. Sales people generally like to make clients feel happy, so if they know that they are making them feel uncomfortable, then they are likely to stop.
- Encouraging staff to be proactive and suggest that the supplier make a note on Council’s file that gifts/benefits will not be considered, so they should not be offered.
- Staff should feel supported to be blunt (while remaining professional) in their approach to sales representatives i.e. being an accommodating / courteous Council representative does not need to apply in these instances.

Based on this feedback it is intended to conduct internal staff training for all staff with procurement delegations.

Supporting material

Once the training program is completed the materials will be available for review.

Proposed evaluation methods

Feedback from staff training program once implemented – Manager – Human Resources and Risk – Initial completion date 31 December 2013

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 7

That councils, if they have not already done so, analyse their procurement processes to identify points of corruption risk and take steps to improve the design of their procurement processes.

Summary of response

- ✓ Implemented as described in the report

Action proposed

Council has previously engaged Mr Phil Scott from Local Government Procurement to provide an assessment of our procurement processes. That report was completed in February 2012 and identified a number of recommendations for improvement.

In addition to this Council engaged Mr Chris Newman from PMMS Consulting Group to undertake a review of our procurement processes and prepare a plan for improvement. That review was completed in April – June 2012 and a series of schedules, titled a road map, has been prepared to implement the improvements identified in that.

The Procurement Group is now working its way through the recommendations in those reports.

Supporting material

- Copy of report from Local Government Procurement
- Copy of road map from PMMS Consulting Group
- Sample minutes from Procurement Group meeting held 21 January 2013

Proposed evaluation methods

Level of compliance with recommendations from Local Government Procurement and PMMS Consulting Group – Procurement Group – General Manager – on-going

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 8

That councils if they have not already done so, consider introducing e-procurement as an efficient method of controlling possibly vulnerabilities in their system.

Summary of response

- ✓ Implemented as described in the report

Action proposed

Council has already introduced an e-procurement system using the Civica Authority software system. This system was in place prior to Operation Jarek.

Despite having an e-procurement system in place there are still opportunities for fraud as was witnessed with Operation Jarek. In Council's situation purchases by Mr Lapham were counter-signed by his section manager as the material purchased was used by Council.

The real issue for Council was that the amount being purchased was greater than was required in the short to medium term. The risk relates to the management of stock not recorded in store as Mr Lapham was able to store the stock ordered outside of the Council store. This issue is addressed in recommendation 11.

In respect to the e-procurement system the software is set up to mirror the authorised procurement delegations. If adequate delegations are not in place the requisition is forwarded electronically to that person's supervisor for approval. Once approved the staff member can raise the purchase order.

Currently the same person can raise a requisition, order and goods receipt (if the amount is within the purchasing delegation). Council has developed several reports that can report on the procurement process via officer and undertake audits of any purchase order as required. These processes are currently being reviewed to determine whether they can be improved.

Supporting material

Cover page for requisition audit report as mentioned below. (Refer to recommendation 9 for copy of cover page)

Proposed evaluation methods

Use of requisition audit report – This report identifies when staff are complying and not complying with our procedures. Non compliance can relate to there being insufficient suppliers to obtain necessary quotations or there may be a specialist supplier. Even though this is considered to be non-compliance, with the standard procedures, exemptions are allowed where they are justified.

The requisition audit report will be submitted to the regular meetings of the Procurement Group with the General Manager responsible for monitoring that reporting.

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 9

That councils, if they have not already done so, review which reports are available to the managers of stores and ensure they (councils) can generate a report showing the orders placed by any individual across all cost centres.

Summary of response

- ✓ Implemented as described in the report

Action proposed

Council has engaged an external report writer to prepare crystal reports from Authority software that can be generated from staff involved in the procurement process. Reports that are now available include:

- Supplier Expenditure Analysis – Provides details of expenditure per supplier
- Organisational Expenditure Analysis – Provides details on numbers of invoices by transaction value ranges and allows you to then analyse the suppliers for those invoices
- Requisition Audit Report – Provides details of requisitions by staff member(s) and / or supplier(s) and also compares requisitions to the requirements of Council's purchasing procedures to identify anomalies
- Purchasing Segment Analysis – Provides details of purchases from individual suppliers for the period identified

These reports are now being presented to meetings of the Procurement Group and are available at all times, as part of the standard suite of reports to Procurement, Finance and other staff.

Supporting material

Cover page provided for the four main reports; i.e.

- Supplier Expenditure Analysis
- Organisational Expenditure Analysis
- Requisition Audit Report
- Purchasing Segment Analysis

Proposed evaluation methods

The information provided in these reports is subject to on-going review. What has been pleasing to date has been confirmation that nearly all the major expenditure items and major suppliers have all been subject to a formal tender process or represent State Government contracts.

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 10

That councils, if they have not already done so, analyse inventory management systems with a view to improving controls and reducing waste.

Summary of response

- ✓ Implemented as described in the report

Action proposed

It is considered that Council's store is operating effectively with a large number of control systems in place. These include, but are not limited to:

- Stock ordering through e-procurement (Authority software with restrictions on delegations) where orders are checked at the goods receipting point and at accounts
- Minimum and maximum levels for stock are in place and used on a daily basis to order stock items. This is for efficiency and to reduce the temptation to bulk buy and tie up resources with excess or aged stock
- Staff knowledge, experience and average usage reports are used to assist in setting minimum and maximum stock levels
- Random stocktakes are conducted regularly to check stock for inventory accuracy and condition. The target is weekly rotational counts but this is subject to fluctuating workloads and resources
- The most recent stocktake was 100% accurate and inaccuracies have been consistently trending downwards since 2008, when there was a change in staff and improved systems implemented
- All inventory is tracked through the Authority software and all issues to staff are in hard copy indicating who collected the goods, who had delegation to obtain the goods and which store staff issued the goods
- The store staff are familiar with appropriate levels, condition and location of stock through a sectioned, clean and well labelled warehouse
- The store records indicate that uncontrolled Council stock has reduced by ensuring that as many items as possible and suitable are taken into store control. This is evidenced by an increase in countable items from 240 in June 2008 to 868 countable items in December 2012. There has also been an increase in stocktake accuracy and a decrease in write offs.

Supporting material

- Example of a screen dump for minimum and maximum parameters for Inox Lubricant
- Copy of most recent stocktake report (17 December 2012)

Proposed evaluation methods

The six monthly stocktake remains the major evaluation measure for this item. The stocktakes will continue to be reported to senior management.

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 11

That councils examine options for control of their pull-based inventory and implement an option that is suitable for their operations.

Summary of response

- ✓ Implemented as described in the report

Action proposed

The management of pull based inventory is considered to be one of the major issues facing Council in respect to Operation Jarek. It is this area where Mr Lapham was able to order supplies that were in excess of Council's immediate needs and those supplies were expensed against a job account, with no recording of the stock on hand.

The actions being undertaken to manage this complex issue are:

- a) Reduction in use of separate sites that allow staff to store unused stock – For example Council has an old depot site (depot number two) where excess materials have previously been stored. That depot is currently being cleared of all stock and the aim is to eventually close the site
- b) Supplies located in Council's main depot (depot number one), which have not been booked in to the store, are in the process of being audited. Where stock is considered excess it is to be sold and where it is still required a record will now be maintained. The aim is to have all supplies located at the Council depot(s) recorded as part of Council's stores system. This will ensure the management of that stock will then be tracked and monitored.
- c) Existing delegations are being reviewed to examine whether they can be further defined to reduce the risk of pull based inventory being accumulated.

The Procurement Group is assisting with the implementation of these actions and a separate internal group has been formed to focus on improving the management of the depots (group titled "Depot Number Two and Other Sites). This group is chaired by the General Manager.

Supporting material

Minutes from last two meetings of Depot Number Two Group, dated 30 January 2013 and 17 December 2012.

Proposed evaluation methods

On-going stocktakes of equipment not held in stock. Council's Civil Services Group will oversee these actions, supervised by the General Manager.

Depot monitoring meetings are being held at least every two months. It is anticipated by the end of 2013 a large part of this process will have been completed.

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 12

That councils, if they have not already done so, organise their stores so that all items are labelled clearly, stock is securely stored and movement of all goods in or out of the store is recorded on an integrated inventory management system.

Summary of response

- ✓ Implemented as described in the report

Action proposed

Council has a number of controls in place as per recommendation ten with additional items of interest including:

- Stock is neatly arranged, highly visible and protected from the elements
- Majority of goods are secured indoors
- Bulky water and sewer stock retained in a separate locked compound
- All goods labelled in a visible and orderly fashion
- Store access is secured through swipe access with an alarm system installed
- Movement of goods in and out of the store is through electronic stock issues on the Authority Software System, where the receiving officer presents a store item request, signed by a person with purchasing delegation and the transaction is entered into Authority to create an issue. The store person then signs that this is complete. There creates a hard copy and electronic record
- The purchase of items for the store is through the Authority Stores system and tied to an inventory management system
- Items are regularly counted on rotational stocktakes to check stock accuracy, condition of stock as well as neatness and layout of the store.

Supporting material

As per recommendation ten

Proposed evaluation methods

As per recommendation ten

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 13

That councils ensure stocktakes are conducted independently of store officers and by staff knowledgeable about the principles of stocktaking.

Summary of response

- ✓ Partially implemented

Action proposed

Traditionally an independent person from Council's finance section oversees the six monthly stocktake of Council's store. The store staff traditionally have undertaken this stocktake as they are more familiar with the stock, with the finance staff member providing an observer / audit role.

Following discussions with Council's external auditor rather than having staff totally independent from the store undertaking the stocktake, the independent finance staff will provide an oversight role by directing which sections are to be audited by the store staff and then undertake sample stocktakes.

The sampling percentage has been confirmed by Council's auditors and this revised process has been approved by the auditors. Overall this is considered to be a more cost effective use of the staff time in that the store staff are the experts in the stock items, with close supervision and auditing as support to ensure that the risk of theft or corruption is minimised.

This process will commence from the next stocktake, which is due prior to 30 June 2013.

Supporting material

Updated stocktake procedure
Email from Council's external auditor (Thomas, Noble and Russell)

Proposed evaluation methods

Stocktake reports on level of variances in stock – Finance Section to complete with report to General Manager – reports due every six months

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 14

That council management assesses the residual risk in its store and, if appropriate for the organisation, conducts random spot checks or cycle counts on select aspects of inventory management.

Summary of response

- ✓ Implemented as described in the report

Action proposed

In recent years Council has increased the level of resources in our store and improved the store processes. This has improved the service provided by the store and resulted in very low levels of inventory variance from store stocktakes.

We now consider the residual risk low for the store, however we intend to undertake random audits of items three to four times per annum as part of our overall audit process.

Supporting material

Copy of random stocktake reminder in Council's strategic task lists

Proposed evaluation methods

Level of variance as a result of random stocktakes – Finance Section reporting to General Manager – three or four to be completed during 2013

Plan for Implementation of Recommendations

Operation Jarek

Recommendation 15

That councils, if they have not already done so, consider the risks highlighted by this report, namely,

- relational selling and gift giving
- procurement processes
- inventory management

and, where they consider the council is at risk, add these topics to their internal audit programs.

Summary of response

- ✓ Implemented as described in the report

Action proposed

Due to the inherent risks in procurement for councils there are only benefits to be gained from independent reviews of our processes. This being the case the firm that undertakes Council's internal audits, Grant Thornton Australia Ltd, has agreed to include these three items in two internal audits during 2013/14; i.e.

1. Inventory / Stock Management Audit
2. Procurement Review Audit (including relational selling and gift giving)

Supporting material

Correspondence from Grant Thornton Australia Ltd. confirming the inclusion of these items in the 2013/14 audit program

Proposed evaluation methods

Grant Thornton Australia Ltd. will provide the audit reports, which are anticipated to be completed by December 2013. Council's internal audit committee will then monitor the implementation of any recommendations from the reports.

