

Implementation Plan - 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
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council currently uses E-Tendering for contracts with an estimated value equal to or over \$30,000. The "Welcome Page" for Council's E-Tendering provides links to the following documents:

- Doing Business with Liverpool City Council – A Guide for Consultants, Contractors and Suppliers.
- Council's Code of Conduct.
- The NSW Government Code of Practice for Procurement.

In order to capture all contracts, including those valued under \$30,000, the following actions will be introduced:

- Issuing the above three documents to all new contractors, vendors and suppliers, regardless of the value of the contract.
- Training staff (as referred to above) on how to respond to unsolicited calls or "cold callers".
- Training staff on how to respond to a supplier who behaves in any manner which contravenes Council's Codes and Policies.

It is also proposed to feature an article on Council's web page and Council News relating to the outcomes of Operation Jarek, Council's commitment to take all practical measures to eliminate corrupt conduct, and encouraging any complaints to be lodged with Council or ICAC.

Supporting material

- Doing Business with Liverpool City Council – A Guide for Consultants, Contractors and Suppliers.
- Council's Code of Conduct.

- The NSW Government Code of Practice for Procurement.
- Ethical Governance: Internal Reporting (Public Interests Disclosures) Policy

Proposed evaluation methods

Develop an online questionnaire to be sent to a cross-section of contractors who have provided goods or services to Council, in order to gain their understanding of Council's policies. This will then inform Council whether further supplier training and education is required.

Council's Internal Reporting (Public Interests Disclosures) Policy establishes an internal reporting system for the reporting of amongst others, inappropriate supplier behaviour and corrupt conduct. This enables Council to evaluate and take appropriate action against any reported breaches including inappropriate and corrupt behaviour by suppliers.

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
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council will develop a policy to include the banning of "cold calls" by suppliers and contractors. The policy will also prescribe that all contact is to be made by email or mail in the first instance, with respect to providing information about goods and services, and all meetings are to be by appointment only. More than one Council officer will be required to attend all meetings with suppliers and contractors and these meetings will occur in a public place where practical. The policy will be provided to all new suppliers, contractors and vendors.

The policy will also provide that all staff be required to notify their Supervisor or Manager of any unsolicited approaches, demonstrations or provision of samples by suppliers.

Suppliers engaging staff by means of unsolicited approach shall receive further training and education on Council's policies in relation to gifts and benefits. This would then be documented.

Supporting material

- Council currently stores all records of unsolicited offers in an electronic container (TRIM reference 2012/0005 CORPORATE MANAGEMENT - CONTRACTING - Consultants - Unsolicited Letter - Offer of Services and Products 2012).

Proposed evaluation methods

The above electronic container would be monitored to gauge improvements in supplier knowledge about Council's policies on gifts and benefits.

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
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council's current Ethical Governance: Gifts and Benefits Policy was adopted in August 2011. The policy was drafted at the time incorporating material contained in ICAC's Managing Gifts and Benefits in the Public Sector Toolkit 2006. This policy was revised on 6 December 2012 to include detailed expected behaviour of Council staff, and published on Council's website on 6 December 2012.

The General Manager sent a memo dated 19 November 2012 to all members of Council staff concerning gifts and benefits. The memo contained a paragraph specifically referring to expected behaviour of Council officials in relation to gifts and benefits. (A similar memo was sent to the Mayor and Councillors at the same time.)

An E-learning module on Council's Code of Conduct has been developed by Council's Learning and Development Coordinator, which will be available to all Council staff early in 2013. The learning module will contain a specific section on expectations of behaviour in regard to gifts and benefits.

It is also proposed to include training on gifts and benefits to all new starters at Council.

Supporting material

- Council's revised Ethical Governance: Gifts and Benefit Policy

- General Manager's memo to Members of Council Staff on Gifts and Benefits (November 2013)
- Council's E-Learning module on Council's Code of Conduct

Proposed evaluation methods

Council's Governance and Legal Services Unit is responsible for maintaining Council's Gifts and Benefits Register. A report regarding entries in the Gifts and Benefits Register is to be provided to the General Manager at the end of each financial year.

The General Manager's memo on gifts and benefits is issued to all Council staff each November. Its content will be reviewed annually to ensure that any current issues concerning gifts and benefits are addressed in the memo.

Council's Ethical Governance: Gifts and Benefits Policy will be due for review in November 2014.

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
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council's Ethical Governance: Gifts and Benefits Policy was amended on 6 December 2012 to provide that Council staff members having financial delegations and those who are designated persons under the *Local Government Act 1993* must not receive gifts and benefits.

Supporting material

- Council's revised Ethical Governance: Gifts and Benefit Policy

Proposed evaluation methods

Council's Governance and Legal Services unit will continue to monitor Council's Gifts and Benefits Register to check the nature and circumstances of offers of gifts and benefits and to detect any problems in relation to repeated offers of gifts and benefits to any individual

staff member or work unit in which case the General Manager and the Internal Audit Unit of Council would be alerted.

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
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

The disciplinary consequences of breaching Council's policy on gifts and benefits are now specifically referred to in clauses 4.31 and 4.32 of Council's Ethical Governance: Gifts and Benefit Policy and by Council's E-Learning Code of Conduct staff training. Council is reviewing the e-learning module to include a reference to "relational selling" tactics and how to recognise them. This will include mentoring staff that are more likely to deal with suppliers face to face.

Supporting material

- Council's revised Ethical Governance: Gifts and Benefit Policy
- Council's E-Learning module on Council's Code of Conduct

Proposed evaluation methods

As per Recommendation 4.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Staff located at the Council Depot, Casula Powerhouse Arts Centre, libraries and the Information Technology business units are most likely to be exposed to attempted "relational selling" than any other Council units. Council staff involved with NSW Government contract purchases, such as the purchasing of Council owned vehicles and heavy equipment, where more than one supplier is listed under the particular contract are also deemed susceptible to attempted "relational selling".

These identified areas will be considered as part of Council's risk register and overall management of risks as part of the newly created Enterprise Risk Management role.

Council is presently revising its Procurement Manual. "Relational selling" will be identified as a specific risk in the revised manual and training will be provided for staff within the above units about "relational selling" tactics as well as training on all aspects of procurement. Council staff will also be encouraged to identify any potential problems with individual suppliers and to discuss follow up action with their Manager and / or Director.

It is proposed that the reviewed Procurement Manual will also articulate that where a Council officer is responsible for a purchase under a NSW Government contract (or through WSROC or Local Government Procurement), and where there is more than one supplier, the Council officer will need to justify why one supplier is preferred over any other suppliers for the same contract and obtain their Manager or Director's approval. It is further proposed that the Manual will prescribe that personal meetings of Council representatives with suppliers include more than one member of staff and that the location of any interaction is in a public space.

In the future all suppliers will also receive a copy of "Doing Business with Liverpool City Council: A Guide for Consultants, Contractors and Suppliers". This document is currently posted on Council's website.

Supporting material

- Doing Business with Liverpool City Council: A Guide for Consultants, Contractors and Suppliers

Proposed evaluation methods

Council's Ethics and Audit Committee meets quarterly and provides independent oversight and monitoring of council's audit processes and governance framework. The committee approves the internal audit plans, and provides a forum for discussion of areas worthy of internal audit attention.

In consideration of inclusion in the Annual Internal Audit Plan, Internal Audit monitors and considers those deemed high risk areas of Council, the number of public interest disclosures received from Council staff as well as a range of activities including selling practices and potential conflicting supplier relationships.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council has created a process map for contracts of value \$30,000 or over, which will be used to identify points of corruption risk.

As discussed above it is Council's intention to review the entire procurement and contact functions, policies and procedures in early 2013 and introduce a new Procurement Manual.

Council is also undergoing an organisational review which should be completed in February 2013.

Proposed evaluation methods

Public tenders above \$150,000 is currently also subjected to scrutiny by Council's Internal Audit Unit prior to the awarding of contracts by Council.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Currently Council only uses e-procurement for tenders and contracts over \$30,000. Council is considering the options available to implement the full e-procurement model which would include all contracts under \$30,000.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council is currently preparing to undertake a full review of its stores function, operating at its Rose St Depot. Currently all inventory orders are raised by the Stores Officers, orders

costed to a balance sheet (asset) account, and when store items are issued they are charged to the various cost accounts.

As store transactions are flagged with specific transaction type codes a report will be created to highlight where stores transactions were allocated to in the costing process within the financial system.

The current financial system (Technology One) records the stages of the purchase process from Requisition ⇒ Order ⇒ Delivery ⇒ Invoiced with an audit trail of users for each of these stages. As the purchase order details are stored against financial transactions in the financial system, council has reports that will identify orders across individual cost centres.

Customised reports will be written using the Technology One XLONE report writer tool over the available supply chain data sources and other customised reports will be created using third party reporting tools, i.e. Crystal Reports, over the database tables within the Technology One financial system.

Supporting material

The following are reports that are available to identify store transactions.

- Stock Movement Report ⇔ Extended Details
- Various Cost Centre Reports

Proposed evaluation methods

As noted above Council is currently preparing to undertake a review of the operation of its stores function and this will include input from the outdoor work teams, stores officers, Finance and Depot management employees. This review process will also be used to identify improved management evaluation capacity to verify the effectiveness of stores operations.

The review of the stores function will be completed with assistance from external consultants with quotes being sought from an expression of interest process. As part of this review a timeframe for implementation of changes to the operations of Council stores function will be presented and agreed to by Council management.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Independent controls over the main store at Rose St Depot are in place to confirm financial controls at a global level, including a reconciliation of the store sub ledger to ledger control accounts, formal monthly reconciliation and inventory pending (Stores orders delivered and available for issue not yet paid).

The stores items have been assigned to specific bin location within the inventory system.

Reports will be created to identify slow moving stores items and potential obsolete store items.

As noted in Recommendation 9 Council is currently preparing to undertake a full review of the operations of its stores function, this will include potential efficiency improvements and control processes. Council as part of its review is also investigating the implementation of a bar code process for its store operations.

As store transactions are flagged with specific transaction type codes a report will be created to highlight where stores transactions were allocated to in the costing process within the financial system.

Supporting material

Stores System Reconciliation Process

- Standard Technology One (Crystal Reports)
- Stock Balances Report ⇒ Stock Balances Summary Report – Stores sub ledger listing of balances
- Trial Balance Report ⇒ Trial Balance Summary Report – General ledger control account to be selected as part of the criteria
- Customised XLONE Reports –Data extracted via system direct to Excel workbooks

Inventory Pending Reconciliation Process

- Customised XLONE Report –Data extracted via system direct to Excel workbooks

Proposed evaluation methods

The formal monthly reconciliation of the Stores sub ledger to the General Ledger control account is prepared by the Financial Accounting team which is signed off by the Senior Financial Accountant. The annual stocktake is part of the end of year working papers subject to review by Council's external auditor.

Implementation of the requirements following the review of store's function as noted above.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

As previously noted Council is preparing to undertake a full review of its Stores Function including a review of the inventory items that are required to ensure efficient delivery of services. In the interim store items are under review for turnover and utilisation to determine appropriate stock levels.

Control of pull based purchasing is currently completed through actual to budget performance monitoring. Council is also planning to undertake a review of its pull based procurement process as recommended in other areas above. The current financial system records purchase order details against transactions, and reports will be produced across various cost account allocations.

Council currently operates its purchasing by a decentralised electronic requisition process with all requisitions being reviewed within the purchasing section of its Legal and Governance department prior to purchase order being released to suppliers. This process is defined within the workflow engine in the financial system.

The purchase function allows for the recording of quantity per line for items identified as “goods” and a process of review of quantities will be investigated as part of the review of procurement processes. It would not be cost effective for Council to run a process as identified in the ICAC Operation Jarek Report, as this would result in the inefficient duplication of processes.

Review of the Computerised Audit Assistance Tool (CAAT) software IDEA to see if it’s practical to utilise this software to improve the monitoring and control of purchasing activities.

Develop more formal and regular stock movement reporting process to identify to management abnormal store item movements.

Supporting material

- A store item replenishment report is available to assist in identifying stock that may need to have a new order placed.
- Stock movement reports, could also be used to analyse and identify store item trends.
- Order control reports have been developed using the Technology One XLONE report writer.

Proposed evaluation methods

On completion of the store function review changes to the overall store processes is envisaged, including changes to minimum quantities of store items.

Purchase control KPI’s will be developed and linked to overall performance reviews on completion of the procurement and stores reviews.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council's Store located at the Rose St Depot has all items clearly labelled, and recently assigned to specific Bin locations.

The present location, layout of the existing building, and utilisation as storage area for other non-store items hampers the secure storage and movement of goods, and will be included in the proposed review of the store function. Currently it is deemed that all items are stored as securely and as practical as possible.

All store items are recorded in the current financial system (Technology One), which provides a fully integrated inventory as a module of the financial system.

Supporting material

- Reports by Bin Location etc, store transactions posting log.
- Monthly reconciliations.

Proposed evaluation methods

Frequent independent reconciliation and formal monthly reconciliation by the Finance team provide adequate evaluation of the stores function and process.

The 2012-13 annual stocktake will be the first stock take completed under the new stores layout at the Rose St Depot. The analysis of this stocktake will include feedback from staff involved in the stocktake process.

Any issues identified in the reconciliation of the Stores system are to be reported to Senior Financial Accountant and if necessary other levels of management and if material to the Internal Audit Unit for further evaluations.

Recommendation 13

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

Summary of response

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council's financial services unit with the assistance of the Stores officers undertake the annual stocktake of the main stores at Rose St Depot. All count entries are updated, stocktake variance analysis and finalisation is completed by the Financial Services staff. The Financial Services staff involved in the stocktake process has accounting qualifications and are aware of the stocktake requirements.

Council's external auditor has not raised any concerns in the past with Council's stocktaking process and has relied on the annual stocktake, with the inclusion of these results as part of the working papers for the annual audited financial reports.

For the next annual stocktake due in June 2013, formal stocktake procedures will be documented and issued to all staff involved in this process.

Supporting material

- Stocktake Processing (Non POS)
- The core financial system has default workflow for stocktakes and also has the functionality for Council to define customised workflows if licence rights to this module are acquired.
- Stocktake records
- Monthly reconciliations
- Working papers for the annual audited financial reports

Proposed evaluation methods

The 2012-13 stocktake results will be compared with the prior year stocktakes to determine whether the accuracy of the initial count, levels of variation and monetary value of final stocktake adjustment have improved.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Council has not formally completed a formal risk review under an Enterprise Risk Management framework for its store's operation. However it does consider operational risks as part of its business / work plan development. The average store balance and quantity of items held on hand is not considered to represent a material risk when compared to the dollar value of Councils operations, however, there are processing risks associated with the operation of the stores function.

The 2012-13 stocktake results will be analysed to determine if there are store items that have significant variances, and that consideration be given to having these items subjected to random spot checks by the Financial Accounting team.

Supporting material

- Refer comments in recommendation 13.

Proposed evaluation methods

1. The reconciliation of store sub ledger to ledger control balances are completed on a regular and frequent basis independent from the stores.
2. The financial system has also been set up to ensure regular and frequent independent reconciliation of the Inventory Pending account.
3. The review by Council's external auditor of the annual stock take process and the random stock counts of various stock items during the course of the year in preparation of the financial statements provides reasonable assurance over stores process.

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

The recommendation will be:

- Implemented as described in the report
- Implemented in an alternative way
- Partially implemented
- Not implemented

Action proposed

Good practice internal audit plans are based on a risk assessment of key strategic and operational areas to determine appropriate timing and frequency of coverage of each of these areas.

Council risk management in the past has been limited to Workers Compensation Claims, and as a result is currently in the process of recruiting an Enterprise Risk Management Coordinator to establish ERM processes and develop a risk register to strengthen the overall governance framework of Council. The updated Council Risk Register and those areas that are of high risk to Council will be considered in developing the 2014/15 Annual Internal Audit Plan for adoption by the Ethics and Audit Committee.

The 2013/14 Annual Internal Audit Plan will still be based on a risk assessment which was conducted in January 2007 with consideration to those areas perceived by Internal Audit to be of high risk to Council.

It is also proposed that Council revise the current Fraud and Corruption Prevention Policy and Plans originally adopted in March 2008. The plan has originally been developed to clearly document, assign and implement strategies that Council and its staff are to use to detect and mitigate fraudulent or corrupt acts from occurring.

Supporting material

- Internal Audit Operational Plan
- Ethics and Audit Committee Charter
- Ethical Governance: Internal Reporting (Public Interests Disclosures) Policy
- Fraud and Corruption Prevention Policy
- Fraud and Corruption Prevention Plans

Proposed evaluation methods

Council's Ethics and Audit Committee meets quarterly and provides independent oversight and monitoring of Council's audit processes and governance framework. The committee approves the internal audit plans, and provides a forum for discussion of areas worthy of audit attention.