



our Ref: Z15/0072

2 September 2016

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Dear Dr. Waldersee

Implementation Report for actions arising from Operation Jarah

I refer to your letter of 23 August 2016 seeking Ausgrid's 12 month implementation report on actions arising from the recommendations of Operation Jarah.

The ICAC report made three recommendations to help Ausgrid reduce corruption risk in its Contract Cable Laying (CCL) function. Specifically, the report recommended that Ausgrid tighten its processes relating to CCL work orders, improve data management and retention systems, and consider and adopt an optimum contracting model to deliver CCL work.

Ausgrid is committed to making genuine change in the management of fraud and corruption risk and has now completed all identified actions that support the ICAC's three recommendations. Progress of the actions has been reviewed and monitored by Internal Audit with reporting to the Ausgrid Executive, the Board Audit and Risk Committee and the Board of Directors.

A copy of the implementation report is attached. We note your advice that this implementation report will be loaded on to the ICAC's website.

On the basis that all actions to address the recommendations are now complete, we ask that you consider this as Ausgrid's final implementation report on this matter.

Should you have any enquiries about Ausgrid's implementation report please contact Clarita Imperial, Head of Audit, on (02) 8569-7088.

Yours sincerely

A handwritten signature in black ink, appearing to read "Trevor Armstrong".

TREVOR ARMSTRONG
Acting Chief Executive Officer

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Recommendation 1

That, in the short term, Ausgrid tightens processes within the existing system for contract cable laying work orders to reduce existing corruption opportunities. In this regard, Ausgrid should focus on processes for approving variations, tightening the scope and budget for work order contracts and reducing opportunities for individual officers to control key tasks, including the selection of contractors

Summary of response

The recommendation has been:

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

Action taken to implement recommendation

Changes to improve Contract Cable Laying (CCL) work order processes to reduce corruption opportunities have been implemented in a staged manner since 1 July 2015. A review of CCL work order processes, to identify areas for improving business processes, has also been completed. Further, a Contract Management Plan and CCL procedure has been developed, approved, implemented and communicated. These contain provisions for:

- approving works using systemised sub-delegations of authority consistent with the company's Delegations Policy, with visibility of all scoping documents, project estimates, contractor submission and contingencies;
- approving variations using the new CCL work order procedure. This includes key controls such as segregation of duties and endorsing and approving variations using Ausgrid's sub-delegation of authority;
- defining the full scope of work orders - this includes site details, site inspection notes and identified constraints;
- preparing budgets for work orders as part of project approvals, including contingencies; and
- selecting contractors and measuring their performance through the use of KPIs.

Training for CCL staff on the Contract Management Plan, the CCL procedure and delegations has been undertaken.

Supporting material

- The Contract Cable Laying Contract Management Plan
- Company Procedure – Management of Underground Cable Laying Works

Evaluation of implementation

- Management review and sign off of implemented actions arising from the review of CCL work order processes
- Independent review by Internal Audit of the changes to CCL work order processes

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Recommendation 2

That Ausgrid improves its data management and retention systems. Data capture should, as a minimum, be able to provide Ausgrid with the capability to establish unusual expenditure patterns, improve the accuracy of estimates for work orders, capture information on environmental and site conditions to inform project design and budgeting, and help establish cost benchmarks.

Summary of response

The recommendation has been:

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

Action taken to implement recommendation

A review of the data management and data retention system has been undertaken with opportunities for improvement identified. This work included reviewing and adjusting the procedures used to scope and value work orders, capturing site based information and using cost benchmarks to inform project design and budgeting.

A monthly management report has been developed to assist the identification of unusual expenditure patterns.

Changes to the data management and retention system have been progressively implemented since 1 July 2015. The data management and data retention systems will be reviewed and revised in line with business needs.

Supporting material

- The Contract Cable Laying Contract Management Plan
- Company Procedure – Management of Underground Cable Laying Works
- An approved Project Brief replacing the CCL database with the corporate IT system

Evaluation of implementation

- Management review and sign off on a treatment action plan for data management and retention systems
- Independent review by Internal Audit of implemented changes to data management and retention systems

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Recommendation 3

That Ausgrid considers and adopts the optimum contracting model to deliver contract cable laying work. Central to this consideration should be the alignment of Ausgrid and contractor motivations, Ausgrid's current operating environment, and the efficiency and effectiveness of any such contracting model.

Summary of response

The recommendation has been:

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

Action taken to implement recommendation

A review of options for the optimum contracting model to deliver contract cable laying work was completed in late 2015. The review considered:

- Ausgrid and contractor motivations and their alignment;
- Ausgrid's current operating environment;
- alternative methods of contracting; and
- the efficiency and effectiveness of proposed contracting models.

The review also took into account the optimal balance of the cost of risk and operational efficiency and effectiveness. The recommendations of the review were assessed and endorsed by Ausgrid's Executive Leadership Team (ELT) in December 2015 and the agreed model is now being implemented. The contracting model addresses the issues raised in the ICAC's report.

Ausgrid is currently undertaking appropriate market engagement for the new Master Supply Deed. The appointment of preferred tenderers is expected by December 2016.

Supporting material

- Management Report outlining the options considered and the recommended optimum contracting model
- NSW government procurement guidelines.
- ICAC guidelines for procurement.

Evaluation of implementation

- Independent review of the optimum contracting model, undertaken by Tracey Brunstrom & Hammond Pty Ltd and noted in the Management Report.
- ELT review and endorsement of a treatment action plan identifying options and the recommendation contained in the Management Report.