



## Email and post

Ms T Hamilton LLB  
Deputy Commissioner  
Independent Commission Against Corruption  
GPO Box 500  
SYDNEY NSW 2000

17 March 2016

Dear Deputy Commissioner

### **NSW Rural Fire Service plan of action in response to recommendations made in *Investigation into the Conduct of Officers of the NSW Rural Fire Service and Others (Operation Vika)***

#### 1. Introduction

- 1.1 The NSW Rural Fire Service (**NSW RFS**) again thanks the Independent Commission Against Corruption (**ICAC**) for bringing to light the corrupt conduct which was the subject of investigation and inquiry in Operation Vika. The NSW RFS welcomes the opportunity to work with the ICAC to prevent corruption and ensure that public moneys are spent wisely and prudently.
- 1.2 On 17 December 2015, the ICAC published its report entitled *Investigation into the Conduct of Officers of the NSW Rural Fire Service and Others (ICAC Report)*. The ICAC Report made four recommendations<sup>1</sup> (pp 48 and 50) to improve the operations of the NSW RFS and to safeguard against corruption. Those recommendations were made under sections 13(3)(b) of the *Independent Commission Against Corruption Act 1988 (NSW) (ICAC Act)*.
- 1.3 The NSW RFS now responds, in writing, to those recommendations, which it is required to do by 17 March 2016, under section 111E of the ICAC Act. The NSW RFS notes that it must report to the ICAC, by 17 March 2017, as to its progress in implementing the plan herein furnished to the ICAC.
- 1.4 In this response, the NSW RFS sets out:
  - (a) what it did immediately upon being notified of Operation Vika to prevent corruption
  - (b) actions it has taken since that time to prevent corruption
  - (c) what it plans to do in the future to prevent corruption.
- 1.5 As the ICAC is aware, shortly after the public inquiry ended in June 2015, the NSW RFS engaged PricewaterhouseCoopers (**PwC**) to conduct a review of emergency procurement and inventory control

<sup>1</sup> ICAC Report at pp 48 and 50.

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and to develop a new system for the conduct and management of emergency procurement. This had the aim of balancing the NSW RFS' obligations to be prudent with the expenditure of public money as an agency of the NSW Government, and the imperative to respond to emergencies as and when they arise in a timely manner, to protect life and property. The tension between these two objectives is inherent and unavoidable. It is the need to acknowledge and pursue both which informs this plan that the NSW RFS now furnishes to the ICAC.

- 1.6 The NSW RFS operates in a unique environment with unique responsibilities. Although parallels may be drawn between it and other fire fighting services, the NSW RFS is larger in terms of its number of volunteers, its expenditure, and its capacity to render assistance, and operate, outside its jurisdiction. That is, the NSW RFS regularly deploys resources to places outside New South Wales, and, indeed, internationally. Accordingly, designing a system to meet these specific requirements is difficult. Indeed, the PwC Final Report (paragraph 2.9 below) stated that:

*There were no directly relevant case studies to draw upon in a similar context and within similar organisations that are able to provide guidance on which option [for emergency procurement] to select. The most appropriate solution being [sic] highly dependent on the nature and operations of the organisation to provide the right balance of control and flexibility.*

- 1.7 Accordingly, it has been necessary for the NSW RFS to formulate a plan which fits within its unique operating environment.
- 1.8 The responses set out below represent a well-developed plan to improve procurement practices within the NSW RFS and to respond to the recommendations made in the ICAC Report. As is to be expected, the plan may need to be modified as it is implemented to take into account unforeseen circumstances, or changes in circumstances. Once the new systems are implemented, further changes may need to be made to accommodate the NSW RFS' demanding operating environment, especially during a fire season. It is likely that refinements will need to be made to the plan during or after the first fire season for which it is implemented.
- 1.9 The NSW RFS has grouped its responses to the four recommendations such that there is a single response to Recommendations 1 and 2, and a single response to Recommendations 3 and 4. This reflects the approach taken by the ICAC in Chapter 5 of the ICAC Report, wherein Recommendations 1 and 2, and Recommendations 3 and 4, were dealt with together, respectively.

## **PART A: NSW Rural Fire Service's response to corruption prevention recommendations**

Firstly please indicate the response to be taken for each recommendation made.

***Recommendation 1: That the Rural Fire Service (RFS), where possible, strengthens its logistics capabilities and modifies its procurement practices to reflect an overall logistics focus.***

*Please indicate the response the public authority will take in its plan of action:*

- Implement the recommendation as described in the report*
- Implement the intent of the recommendation in an alternative way*
- Partially implement the recommendation*
- Not implement the recommendation*

***Recommendation 2: That the RFS continues to seek methods of integrating the Systems, Applications and Protocols (SAP) system and emergency manual controls in a way that does not impede speed and flexibility.***

*Please indicate the response the public authority will take in its plan of action:*

- Implement the recommendation as described in the report*
- Implement the intent of the recommendation in an alternative way*
- Partially implement the recommendation*
- Not implement the recommendation*

## 2. Recommendations 1 and 2

- 2.1 The NSW RFS has taken a number of steps to strengthen its logistics capabilities and to modify its procurement practices to reflect an overall logistics approach.
- 2.2 The NSW RFS has decided to adopt Recommendation 1 in its entirety. The NSW RFS plans to go beyond Recommendation 2, and largely abandon the use of "emergency manual controls" so that they are electronically controlled, managed and systematised. Instead of the outgoing manual, paper-based, system, the NSW RFS will purchase and implement a software suite with anti-corruption controls, which will feed data into, and extract data from, SAP (paragraphs 2.10 - 2.17 below).

### *Immediate Response*

- 2.3 As an immediate response to the ICAC's investigation, the NSW RFS (in relation to emergency logistics):
- (a) strengthened the segregation of duties in the procurement process
  - (b) appointed a State Logistics Officer, who is not a procurement officer
  - (c) strengthened its goods receipting process
  - (d) rolled out the SAP Warehouse Management system (**SAP WM**) at the State Warehouse at Glendenning (which will be enhanced in light of the proposed changes set out below).

### *PricewaterhouseCoopers Review*

- 2.4 The NSW RFS engaged PwC to review the emergency procurement process with a view to identifying business improvements including system solution options. The review was divided into two phases. It was necessary to divide the review in this way given the need for the RFS to implement any changes during the winter. It is not possible for the NSW RFS to effect substantial changes to its systems during the bush fire danger period, which runs from 1 October until 31 March in the following year, under section 81 of the *Rural Fires Act 1997 (RF Act)*. Accordingly, Phase 1 of the review sought to identify changes which could be implemented before the 2015/2016 fire season, whereas Phase 2 has identified changes which may be implemented during 2016, 2017 and 2018.
- 2.5 The objectives of Phase 1 were to:
- (a) identify and map processes and systems in the emergency procurement process, from its commencement until payments are processed, inclusive of goods receipt
  - (b) provide recommendations for short term process redesign or improvement
  - (c) identify and document all internal controls and control points in the emergency procurement process
  - (d) assess the strength of internal controls identified, and make recommendations on any necessary immediate control improvements.
- 2.6 The Phase 1 report was delivered to the NSW RFS in August 2015. A number of the recommendations in the Phase 1 report have been implemented and are described throughout this document. The

outstanding recommendations are being considered and costed in conjunction with the recommendations arising out of the Phase 2 report.

2.7 The objectives of Phase 2 were for PwC to:

- (a) define an approach to enable systemisation of the current emergency procurement processes
- (b) define the business requirements for a required system solution across the procurement process through engagement of key stakeholders and business expertise
- (c) review and refine the process maps defined in Phase 1 where appropriate based on business requirements
- (d) identify standard SAP and non-SAP system solution options that will meet the requirements, and highlight any significant gaps
- (e) ensure that the defined solution would support improved financial controls and audit data
- (f) assess the solution options with consideration to functional fit, cost, benefits and alignment to the NSW RFS IT Strategy, with recommendation of preferred option
- (g) develop a high level plan and approach to support implementation of the recommended solution
- (h) define a high level change management plan to support the implementation.

2.8 A key concern arising from Operation Vika was that the manual procurement procedures during an emergency event were vulnerable to exploitation by improperly motivated individuals. Any replacement of that manual system had to include greater controls of the expenditure of moneys, while allowing the RFS to respond to emergency events in a timely fashion so as to discharge its statutory functions under section 9 of the RF Act.

2.9 The Phase 2 final report was delivered by PwC in January 2016 (**PwC Final Report**). The NSW RFS is currently analysing and costing the comprehensive recommendations from both Phase 1 and the PwC Final Report.

#### *The New System*

2.10 The PwC Final Report advised that significant improvements can be achieved by investing in technology to enable the emergency logistics process to run more efficiently and effectively. In the NSW RFS' view, this will give effect to the objective of reflecting an "overall logistics focus" in how the NSW RFS procures and supplies goods and services in fire fighting and other emergency events. The report proposed the systemisation of the emergency logistics process through the introduction of a non-SAP (front end), which will be integrated into the NSW RFS' operational management system known as ICON, and integrate with the SAP ERP. This approach is supported by the NSW RFS and will be implemented.

2.11 The NSW RFS has identified software solutions which would be suitable for the front end emergency logistics process, and is in the process of selecting the appropriate software. Once selected, the licence to use that software will need to be purchased. The software will include the following electronic forms, amongst others:

- (a) logistics request form
- (b) plant request form
- (c) plant tasking form

- (d) aircraft request form.
- 2.12 The form and workflow solution will integrate with the SAP ERP system to access vendor information as well as capture confirmed data upon approval of the request. The back end integration with SAP will recognise the goods receipt and allow for three-way, purchase order, invoice and goods receipt matching.
- 2.13 To use the example of the acquisition of goods, it is anticipated that the workflow will operate in the following way during an emergency event:
- (a) an authenticated and authorised user (usually a Logistics Officer within an Incident Management Team (IMT), or the State Logistics Officer at the State Operations Centre) will raise a logistics request
  - (b) this will then be sent to an appropriate officer with sufficient financial delegation for approval (usually an Incident Controller in an IMT, or the State Operations Controller at the State Operations Centre)
  - (c) that person will then raise a purchase order through an electronic form. That will only be able to be done where that user has sufficient financial delegation under the *Public Finance and Audit Act 1983* (NSW) (**Public Finance Act**) which is equal to or greater than the amount to be committed under the electronic purchase order, and so as to ensure that there is a segregation of duties between officers. Business rules as to the direction of the workflow will be built into the software, and will not be able to be avoided
  - (d) once that person has approved the purchase order, a purchase order will be raised in SAP
  - (e) it is intended that SAP will then send the purchase order to the vendor so that it may be filled.
- 2.14 The ability to access the system will be limited to those who have a log on in ICON. Those people will then be allocated to an operational function or role, which they will use for emergency procurement. This will permit the NSW RFS to review the sum of expenditure incurred by an individual during emergency events.
- 2.15 The adoption of electronic forms during an emergency event is the core element of the new software solution. Data gathered from the request forms (for example logistics request, plant request, plant tasking and aircraft request forms) must be captured and completed electronically.
- 2.16 Part of this process will involve a review of financial delegations so as to ensure that appropriate members of staff have the appropriate delegations so that they may carry out their functions. It may be necessary for delegations to be made to personnel outside the NSW RFS, under section 12A of the Public Finance Act.
- 2.17 Real time identification of role occupants and their assigned delegations is the key to enable IMT and the State Operations Centre to track accurately and to respond rapidly to their operational needs. The proposed solution offers electronic workflow and mobility to support these without being constrained by the availability of the SAP system and its restraints for business rules.
- 2.18 Other actions taken to date include:
- (a) the provision of goods and services in a number of key areas have been formalised through the execution of written contracts
  - (b) category management plans are being developed, for example in relation to heavy plant, aviation and base camp logistics

- (c) a State Logistics Officer, has been appointed with whose role is to oversee operational logistics during emergency events, a team comprising both procurement and non-procurement officers. The State Logistics Officer will not be a purchasing officer.

*Advantages of new system*

2.19 A principal advantage of the new system is that it will allow the NSW RFS to plan for future fire seasons by capturing the data from previous seasons which will be a guide for future procurement needs. In particular it will be possible to run reports based on:

- (a) suppliers
- (b) spend categories
- (c) quantity of items purchased
- (d) total cost
- (e) timeliness of delivery
- (f) the time between an item being purchased and its use.

*Implementation*

2.20 Once the appropriate software is identified, the principal consideration is whether the NSW RFS should implement it in phases, which will take approximately 22 months, or whether it should be implemented in one step, which will take approximately 12 months. The NSW RFS has decided on the latter option, so as to seek to implement the change within 12 months. Given the significant funds which will need to be expended in developing the new system, funding to implement will be considered as part of the 2016/2017 State budget process. While the NSW RFS plans to have the system operational for the 2017/2018 fire season, it may be that it will only be fully implemented at a later stage.

2.21 The NSW RFS has decided to adopt the change in one step as it will:

- (a) be cheaper
- (b) be quicker
- (c) implement anti-corruption and expenditure controls sooner
- (d) allow for the collection of data sooner, which will inform future procurement and prevent different procurement systems for different goods and services operating concurrently.

*Conclusion*

2.22 The advantages which the proposed plan will have over the current system are as follows:

- (a) the role of individuals will be controlled by software, so as to maintain role segregation. This will prevent one person being able to take all of the steps in the procurement process, and, thereby, circumvent the controls over procurement
- (b) the electronic forms will provide data to SAP to inform future purchasing and stock levels
- (c) business rules will be able to be implemented and enforced in the workflow, to avoid:
  - (i) purchase orders being approved above the approver's financial delegation
  - (ii) one person completing all steps in the procurement process

- (iii) goods not being delivered, when they have been paid for(payment for goods will only be authorised where it is known that the goods have been received)
- (iv) the SAP WM system will be able to capture data regarding orders and inventory usage
- (v) the SAP WM and IM systems, will cover all storage locations in NSW, in concert with district offices.

**Recommendation 3: That all inventory relating to consumables held by the RFS be recorded as assets with their full value.**

Please indicate the response the public authority will take in its plan of action:

- Implement the recommendation as described in the report
- Implement the intent of the recommendation in an alternative way
- Partially implement the recommendation
- Not implement the recommendation

**Recommendation 4: That consumables held in RFS inventory are expensed only when they leave inventory for a specific event or activity or because they have expired.**

Please indicate the response the public authority will take in its plan of action:

- Implement the recommendation as described in the report
- Implement the intent of the recommendation in an alternative way
- Partially implement the recommendation
- Not implement the recommendation

### 3. Recommendations 3 and 4

3.1 The NSW RFS is responding to Recommendations 3 and 4 together because:

- (a) the ICAC dealt with them together in the ICAC Report
- (b) the two recommendations are closely aligned
- (c) implementation of Recommendation 3 will lead to the implementation of Recommendation 4.

3.2 The NSW RFS accepts the proposal in principle.

3.3 Section 119(2) of the RF Act states that:

*All fire fighting equipment purchased or constructed wholly or partly from money to the credit of the [Rural Fire Fighting] Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed.*

3.4 This provision is a vestige of:

- (a) section 37(3) of the *Bush Fires Act 1949* (NSW) (repealed) which provided that:

*All fire fighting apparatus, buildings, water storage tanks or lookout towers purchased or constructed wholly or partly from moneys to the credit of the [New*

*South Wales Bush Fire Fighting] Fund shall be vested in the council of the area for or on behalf of which such apparatus, buildings, water storage tanks or lookout towers have been purchased or constructed as the case may be:*

*Provided that, in the case of any fire fighting apparatus, buildings, water storage tanks or lookout towers purchased or constructed on behalf of the occupier of any supervised park such apparatus, buildings, water storage tanks or lookout towers shall be vested in the occupier of such supervised park.*

- (b) the position which obtained prior to the enactment of the RF Act, namely that the responsibility for the suppression and control of bush fires was primarily the responsibility of local government and civil society.<sup>2</sup>

3.5 Section 119(2) of the RF Act has broad application, and means that essentially anything purchased or constructed with money from the Rural Fire Fighting Fund (RFFF) is to be vested in various local councils.

3.6 The word "vested" means that the ownership of, or property in, any fire fighting equipment which is purchased with moneys from the RFFF is that of the local council. This is of course legally possible: the NSW RFS may control and possess fire fighting equipment which is in fact owned by someone else, namely a local council. "Fire fighting equipment" itself has a very broad definition and includes:

- (a) buildings
- (b) water storage towers
- (c) lookout towers
- (d) and any:
  - (i) vehicles
  - (ii) equipment, or
  - (iii) other things

used for or in connection with the prevention or suppression of fire or the protection of life or property in the case of fire.

3.7 Like all government agencies, the NSW RFS must operate within the law and cannot ignore the legislative mandate in section 119 of the RF Act. It obviously creates issues, given that the NSW RFS procures goods with funds drawn from the RFFF but these goods may never be in the physical control of a local council, notwithstanding that they are vested in that local council. However, notwithstanding that provision, the Commissioner of the NSW RFS has entered into rural fire district service agreements with local councils throughout NSW, under section 12A of the RF Act. Those agreements oblige the local councils to put at the NSW RFS' disposal any firefighting equipment which they owns or is vested in them. This means that the NSW RFS has operational control of all fire fighting equipment in NSW.

3.8 Accordingly, the NSW RFS will adopt a valued inventory methodology in line with standard accounting practice and SAP WM and IM functionality. This will include:

- (a) accurate financial tracking and valuation of current stock and inventory across NSW RFS at the end of each month and year

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<sup>2</sup> ICAC Report at p 48.



- (b) directly allocating costs to emergency events
- (c) the return of goods after an emergency event
- (d) real time and accurate view of inventory commitment across NSW RFS
- (e) the ability to introduce minimum stock levels and automatic ordering and similar cost effective standard SAP functionality for NSW RFS inventory management
- (f) enhanced stock control and stock rotation.

3.9 This accords with both:

- (a) what was recommended by the PwC Final Report
- (b) the ICAC Report which stated:<sup>3</sup>

*The simplest solution is for the RFS to ensure that all consumables in inventory are recorded as assets along with the full value as it is received; just as a standard inventory system would operate. Consumables in inventory are neither vested nor expensed.*

3.10 This is considered appropriate despite section 119 of the RF Act.

3.11 The transition from non-valued inventory to valued inventory brings with it financial and audit implications. It is not achievable to implement this change on 1 July 2016, at the beginning of the 2016/2017 financial year. Therefore, it is anticipated that it will be implemented on 1 July 2017, at the beginning of the 2017/2018 financial year.

3.12 On 1 July 2015, the NSW RFS implemented *State Warehouse Inventory Management - Operations Policy P2.1.5*, together with Standard Operating Procedures (**SOP**) P2.1.5-1, SOP P2.1.5-2, and SOP P2.1.5-3 as a provisional measure.<sup>4</sup> This created the NSW RFS Operational Inventory Register (**Register**) which specifies:

- (a) operationally critical inventory
- (b) maximum and minimum inventory levels
- (c) the amount of inventory to be replenished, when replenishment is ordered.

This data will be able to be adjusted once the new software system set out in in the response to Recommendations 1 and 2 above is implemented, in light of ordering and usage history of particular items of inventory. This Register is approved by the Procurement Strategy Steering Committee.

3.13 The NSW RFS is also moving to a valued inventory system, which will be operated through SAP WM and SAP Inventory Management solutions. The aim is to be able to track inventory held at the State Warehouse at Glendenning, as well as inventory held in all district stores, logistic caches and storage locations (collectively, **storage locations**) across NSW. This will allow the NSW RFS to know how much inventory it has at its disposal across NSW. The inventory in storage locations will be treated as being held by the NSW RFS, not the local government area in which the inventory is stored.

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<sup>3</sup> ICAC Report at p 50.

<sup>4</sup> ICAC Report at p 49.

- 3.14 When the goods leave the storage location, they will be recorded as such. In the event that they are returned to the storage location, they will be receipted as such. Combined with the valuation of stock this will facilitate the expensing of stock only upon issue from inventory.
- 3.15 The NSW RFS has engaged a consultant to forecast the implementation of valued stock, its impact both financially and logistically, and to identify solutions, including tracking expiry dates and rotating stock on a first in first out basis.
4. **Conclusion**
- 4.1 The NSW RFS looks forward to implementing the plans set out in this document. Once these plans are achieved, the NSW RFS will be a more robust organisation, which will be able to deal better with the large sums of public money which it is required to expend each year in the defence of life and property for the benefit of the citizens of New South Wales
- 4.2 The NSW RFS will report on its progress in implementing its plans on or before 17 March 2017.
- 4.3 Should you have any questions in relation to this letter, please contact Ms Natalie Marsic, Director, Program, Audit and Inquiries on 02 8741 5582.

Yours sincerely



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