

E08/2469PUB00771
13/10/2011

JAREK
pp 00771-00801

PUBLIC
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INDEPENDENT COMMISSION AGAINST CORRUPTION

THE HONOURABLE DAVID IPP AO QC

PUBLIC HEARING

OPERATION JAREK

Reference: Operation E08/2469

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY

ON THURSDAY, 13 OCTOBER, 2011

AT 2.00 PM

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THE COMMISSIONER: Mr Campbell.

MR CAMPBELL: Thank you, Commissioner. As I said this morning before we adjourned this afternoon I am proposing to call evidence from Mr Phil Scott who is an expert in supply management and procurement systems and I might observe, Commissioner, that this, this evidence perhaps provides a convenient bridge, if I may put it that way, between the evidence we've been hearing for the last two weeks and the evidence that we are going to hear next week.

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THE COMMISSIONER: Yes.

MR CAMPBELL: I call Mr Scott. Would you come forward please, Mr Scott.

THE COMMISSIONER: Mr Scott, won't you be seated. Mr Scott, I don't think you need the kind of protection that we usually offer witnesses. You're only going to give expert opinion, aren't you?

20

MR SCOTT: That's correct.

THE COMMISSIONER: Yes. Do you understand what I'm talking about?

MR SCOTT: I believe so, yeah. I'll just be offering my advice based on my knowledge in regard to procedures and processes the councils should be applying.

30

THE COMMISSIONER: Yes, yes. Witnesses who give evidence as to the merits of issues before the Commission concerning corruption are offered protection against their evidence being used in criminal or civil proceedings or disciplinary proceedings but I don't think that that's appropriate for you.

MR SCOTT: Okay.

THE COMMISSIONER: But I mean, it is a matter for your decision but I just don't see how it could possibly be of interest to you myself.

MR SCOTT: Sure. I don't believe there's anything that I would be saying that's going to - - -

40

THE COMMISSIONER: No.

MR SCOTT: - - - lead to something like that.

THE COMMISSIONER: Do you want to give your evidence under oath or do you wish to affirm the truth of your evidence?

MR SCOTT: I'll give it under oath.

THE COMMISSIONER: Yes. Would you swear Mr Scott in please.

<PHILLIP GARY SCOTT, sworn

[2.04pm]

THE COMMISSIONER: Mr Campbell.

10 MR CAMPBELL: Thank you, Commissioner.

Mr Scott, would you please state your full name?---Phillip Gary Scott.

And are you a, a, a Fellow of the Australian Association of Procurement and Contract Management Pty Limited?---Yes, I am.

And do you - are you employed as the contracts manager by an organisation known as Local Government Procurement?---That's correct, I am.

20 And was a Local Government Procurement Pty Limited initially established by the Local Government and Shires Association?---That's correct.

And is that the, as it were, the industry or professional association which affiliates all the local government in New South Wales of course across the country?---Well, certainly within New South Wales.

All right. And what, what, what's the nature of the role performed by Local Government Procurement Pty Limited?--- Local Government Procurement was set up in order to provide aggregated supply agreements to councils. In
30 other words to basically tender and contract on behalf of councils and set up supply arrangements which would save them the inefficiencies and difficulties of through full tender processes, By us doing it in accordance with, you know, best practice manners and processes the councils could be guaranteed that they were getting a contract that was set up via a thorough process but also getting the benefits of aggregated supply and better pricing and so forth, enabling the councils then to buy at, at arm's length in a way that got them best value for money.

40 And this supply management and procurement an organised branch of knowledge?---It certainly is and procurement generally these days is being put forward as an actual profession. It's a university course at a number of universities nowadays and it certainly has a higher regard overseas as well.

All right. And I think for instance you say in your statement, which I'll tender in just a moment, that, that you have the initials CPM which is Certified Purchasing Manager qualification and accreditation from Victoria University, is that correct?---That's correct, in association with Institute of Supply Management from the USA.

Oh, right. And where, where is Victoria University situated?---Located in Melbourne.

Oh, right, thank you. Now, for the purpose of a, the Commission's inquiry have you prepared a statement setting out assumptions you've been asked to make and expressing opinions about questions that have been posed to you, have you - - -?---That's correct.

10 - - - did you, you prepared that statement and is the statement dated 13 October, 2011?---That's correct.

All right. Signed it this morning?---Correct.

I tender Mr Scott's statement of 13 October, Commissioner. Do you have a copy there?---I don't have a copy with me.

THE COMMISSIONER: Well, Mr Scott's statement is Exhibit 52.

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#EXHIBIT 52 - STATEMENT OF MR PHILLIP SCOTT

MR CAMPBELL: Thank you, Commissioner.

Now, Mr Scott, in addition to the qualifications and experience I've been asking you about do you in fact as you say in paragraph 3 of your statement teach procurement subjects at TAFE level?---Yes. I have, I've been doing that for over 10 years.

30

And students who, who follow the TAFE course in relation to procurement achieve some sort of certificate or diploma do they?---The achieve a Certificate IV level accreditation in purchasing or in government procurement.

All right. Now, can I - if I could take you please to page 3 of your statement and to the heading just before paragraph 8 of "Procurement Systems".

40 Now, I think you've been asked to assume these facts and they may not appear very clearly from this part of your report but one of the matters that the Commission will be investigating and we'll be investigating it next week, relates to what is in fact incidents of fraud in the, in the procurement systems at certain councils and the, the facts that we'd wish you to assume in relation to those matters are that a person appointed storeman at a given council, I'd ask you to assume, has responsibility for the full management of the council's inventory from procuring the goods to, to their distribution when required as well as organising the store, being involved in the stock take and authorising or at least passing the invoices for payment. Now, is that type of procurement system one you've come across before?

---I have, yes.

And I think you refer to this in paragraph 8 of your statement, does it have a particular name in your branch of knowledge?---You're probably referring there to end to end control.

Yes?---A storeman has complete involvement in the process basically from the moment of requiring some goods right through to authorising the payment of goods.

10

Yes. And you've described that, that circumstance or situation in paragraph 8 of your statement. Do you see that?---That's correct.

And you conclude paragraph 8 by saying, that having one individual with so much discretion is a corruption risk. There needs to be a separate of duties. I'm going to ask you about your subsequent paragraphs is just a moment. But can you tell us why in your opinion that is a corruption risk?---Simply because one person has control of the whole process and can easily change certain documentation to suit a particular scenario. They can order more than what is required. They can order from a supplier that they may be in collusion with. They are subject to potentially undue influence because of the fact that outside organisations see them as being a person who may be has lower education, who hasn't had the complete training in overall procurement and an understanding of the total risks associated.

20

And is it – this might be just a matter of ordinary human experience rather than a matter calling for particular expertise, but I suppose would you agree that an aspect of that is, is the fact that that person may well be ripe for temptation?---Most definitely. And the situation is that if a person in that position decides that they wished to carry out something that is inappropriate it's easy for them these days with modern computers and printers to, you know, order particular goods or services off a particular supplier and then they receive the invoice, they go home, print off a dummy invoice or a dummy delivery docket and alter the details of the description of what was actually received. Pass it through to accounts, accounts pay that amount.

30

And this may not be the Commission's core of business, if I may put it that way with respect, Commissioner, but apart from what is corruptions issues, there's an obvious issue in relation to business efficiency on the part of local government in particular is there not?---Yeah. There's a problem, I mean local government, like any other organisation is pushed to be efficient, to be cost effective and so forth. Therein lies a bit of an issue in its own right. A contradiction where the organisation is trying to keep costs down, but by the same token it may not have a level of staff that it needs to be able to do some of these things in the way that we'd like to see them done.

40

Or perhaps it may not have the systems in place which, which allow senior management to have a ready overview of, of procurement systems, both from the corruption and the efficiency point of view?---Well that can certainly be the case too, because if the organisation hasn't been able or has decided not to set up an inventory or a procurement system in it's, in it's potential fashion, then there'll be a lot of information that senior management just, just won't be aware of. They will have no idea of the level of inventory that they have. They will have no idea of the sorts of items that are being expensed rather than treated as stock lines. And they'll be, they'll be unable to ascertain who is actually authorising different levels of expenditure.

I know you deal with some of these topics further in your statement and I'll come to them in a moment. But could I ask you this question, the, the general public may not know this, that the Commission is a corruption prevention arm, if I may put it that way, and I think that in preparing your statement you have, you have been consulted by the Commission's officers who have responsibility for that part of its operations. Is that correct? ---That's correct.

And I think that in a, in paragraph 9 of, of the statement you have set out a proposed recommendation that I may be submitting the Commission should be made as drawn by the corruption prevention arm of the Commission. That's so isn't it?---That's correct.

And, and these matters relate specifically to procurement. That's so isn't it?---Correct.

And if you look at page 4 and paragraph a) on page 4 we see that the first suggestion is to adopt measures that make sure that no one person has end to end control of the procurement of goods on behalf of the council?---Correct.

And those, those methods are there on the statement, but we adopted the term storeman, but we could equally say no one person, I'll withdraw that.

THE COMMISSIONER: Just - - -

MR CAMPBELL: Sorry, Commissioner.

THE COMMISSIONER: Just say anyone.

MR CAMPBELL: Well someone who has the financial delegation I suppose, Commissioner, but the two aspects are, I'll withdraw that. These measures go to that idea you expressed that there needs to be separation of duties. Is that right?---Most definitely.

So all of those functions, ie financial delegation, power to order directly, sole responsibility for documenting the receipt, et cetera, should be in the

hands of different people?---By segregating the duties you definitely reduce the chance of corruption to take place. The more people involved in the decision making process and the authorisation process the less chance there is of collusion between staff.

Yes.

10 THE COMMISSIONER: What I was really getting at, Mr Scott, is in the top of page 4, you said that in effect that storemen should not have end to end control. But I mean the truth is no one should have (not transcribable) control?---Invariably in procurement you do recognise people as having some level of authority to do things on their own.

People have authority but not end to end. I mean they should not have, they should only have, they should have authority but only for segmented aspects of, of the process whereby goods are purchased?---Well the advantage of that is that certainly you eliminate the chance of that corruption or minimise the chances.

20 Yes. That's basically your recommendation on this issue isn't it?---Yeah, certainly. That's the preferred method to adopt.

I mean there is a, it might be misleading just to ascribe this to storemen, but I mean it's any person involved in procurement?---Certainly across the organisation you could have people who are not storemen but are in fact professionals. You know, university accredited or university trained professionals who are involved in, in different areas of the council and they have different needs as well. But obviously they, they may require some goods to be purchased. In those sorts of situations those people before or
30 those people when they require something to be purchased should also have it authorised by a higher level supervisor, simply because they have no training usually in, in the procurement fundamentals.

MR CAMPBELL: So it doesn't matter at what level you approach this, there should be a separation or a segregation, segmentation of the various functions relevant to the procurement of goods and services on behalf of the council?---Most definitely. Segmentation, segregation of duties is the way to go.

40 The next point is a reference to E-procurement. Now I suppose people might think that, you know, that we think that computers work miracles but, when they probably don't, but what's the relevance of having an electronic system as opposed to a manual system?---Electronic processes speed up the processes. They also reduce the likelihood of errors in documentation and they also provide a permanent record that's easily ascertained as to what's actually taken place. Every transaction that takes place is obviously recorded, whereas in a paperwork type system, signatures I suppose could be forged, paperwork gets lost, documents can be easily changed.

All right. And I think the concluding aspects of paragraph b) at page 4 demonstrate that, that you can still, with an E-procurement system incorporate a segmented or segregated system and you refer to having a two step ordering process or a three step ordering process as examples of that?

---Yes. The systems I've come across allow for that function.

10 THE COMMISSIONER: Isn't there a problem with, having a centralised buyer, one buyer who has the authority to buy because that person may not have the knowledge of the particular goods?---Oh but in my view - - -

(not transcribable)---Sorry, in my view that centralised person shouldn't be in that role unless they have a fairly good level of understanding of what the goods are that are being purchased or the services that are being purchased.

But if you take Council, a fairly large Council then the amount of goods that they are must be pretty enormous, a very large range. Where are you going to find somebody who knows everything, who knows enough about this?---
20 The way that a procurement department is usually structured is that there will be a number of people each with a specialist area, we call it category management these days – so that category of goods is where they become the resident expert if you like. In smaller councils you might have situations where you have to have one procurement person by virtue of the size of the council so to some extent that person can't necessarily become an expert on every item but we do tend to classify items that are required as, what we call
30 A, B or C class items. So the A one's are typically the high value that are either high risk, high risk of pilferage or if they're lost it's a lot of value involved. C class items are nuts and bolts which are really low value and, you know, not so critical and B class items might be some of those items that could fall into either area but need level of control.

You've heard evidence today that where you've got a storeman who, who are able to recommend purchases but not able to buy where there is someone else who does the actual buying, the authorising of the buying. They never ever, the person authorised to buy never makes a decision contrary to the recommendation. That's real life isn't it?---No, I disagree that may - - -

40 That's what happened.---Okay, that may well be happening in certain instances but generally the procurement people are more well educated and more well understanding of the issues relating to purchasing. In the private sector, as an example, procurement people are usually expected to for instance save the organisation at least their annual wages so in that regard their activities are fairly closely monitored and perhaps this is where in local government we might need to be pursuing some changes to look at monthly statistics on activities are monitor what the patterns of procurement are.

That suggests that that job should be given perhaps a degree of importance and status which it is not generally given these days.---Most definitely. I think the level of procurement expenditure in councils is not recognised by a lot of people. I think that the level of expenditure by individuals within the council should be monitored and also that we should implement what we call procurement plans where we analysis what expenditure has taken place in the council over the past twelve months and see what the key categories are and who it is that's spending all the money.

- 10 MR CAMPBELL: Not, which again, disrespect to any person we heard evidence from a man today who was a storeman and, but had a delegation from a council such that the storeman was purchasing \$900,000 worth of supplies every year off his own bat. Now that sounds like that kind of purchasing power could perhaps support a trained procurement professional. But what would you say about that?---I would agree, I don't believe a storeman is the right person to be given responsibility for that level of expenditure. The storeman when they have undertaken courses, for instance, there is a Certificate III level course in warehousing at TAFE
20 which is commonly undertaken by people in the private but that concentrates largely on the stores function at a lower level, it doesn't go into the aspect of procurement and some of the strategies and aspects that are considered important in procurement.

- I know you go in your statement to recommend that councils really ought to, even smaller councils ought to employ a procurement professional but go back to a question that the Commissioner asked you about the knowledge of goods that might be used in all the different functions that councils performs. For instance, how does the procurement professional know
30 what's a good an effective product for the plumbers to use to clear blockages in the drains?---Part of the procurement persons role is to understand to some level the products and services that they're buying. They obviously have to liaise with the end users, they have to liaise with other with people within the council who may have higher technical knowledge and they also have to liaise with suppliers to find out what the latest developments are and to find out what the advantages and disadvantages of specific products are. I guess if a particular end user claims that a particular product isn't very good then the procurement person should be understanding of what those issues are and just testing to make
40 sure that they are true and that it is, you know, something that they may be need to consider.

What about if a plumber says to the procurement professional this drain clearing chemical is the best I've ever used in my 35 years in the trade. Does the procurement professional have a role in saying, that's good but why don't I see whether somebody else makes or markets a virtually identical chemical perhaps under a different name and a better price?---Sure, what we stress in training course is best value for money. So procurement people aren't there to buy the cheapest product nor are they there

necessarily to buy the most expensive one, they are there to buy the one that represents the best value for the organisation.

10 THE COMMISSIONER: Do you really think that you're going to get someone like this in the remote smaller councils of New South Wales?---It will be more difficult no doubt but I am sure that within those regions as well there's people out there, younger people who are keen to advance themselves in procurement or warehousing or some similar area and I guess if we can make the courses and the training available to them then they can bring some of those skills into the organisations.

20 MR CAMPBELL: I suppose what you're talking about in part there are necessarily implicit in what you're saying Mr Scott is that it can be an avenue for advancement for an ambitious young employee of the council or even an ambitious not so young employee of the council.---Definitely, because there are opportunities obviously for employees working for a smaller council in the far west of New South Wales they can progress themselves by moving to a may be a larger regional council and potentially onto a major city council. And they can certainly move within the private sector or they could move into the State Government or the Commonwealth Government level even. But they do need the training and accreditation to be able to do that.

30 THE COMMISSIONER: And where do they get there?---Courses are available through TAFE. TAFE have been running these sorts of courses for many, many years if they wanted to university courses there are university courses at degree level which are available on a part-time basis on a distance learning arrangement where they might you know go for a week at a time every semester. There's also private sector organisations that are running courses and local government procurement is also planning to instigate some courses next year hopefully too.

MR CAMPBELL: Now in paragraph ten of your statement you've said that the recommend, the proposed recommendations are likely to reduce the risk of corrupt conduct occurring and you've explained why, mainly you, it prevents one person having the authority to procure and pay as you put it. Is that correct?---That's correct.

40 But you've also suggested some other things that might also be considered by The Commission. In particular, you refer, your first bullet point to paragraph ten about the adequacy of systems and controls and you've mentioned the concept of protecting both the employee and the council. What did you have in mind when you referred to, when you used that phrase controls in place to protect both themselves and the council?---Staff need to be able to justify why they have made decisions and they also need to have their actions recorded. So if you've got a system that provides staff with the information about inventory levels about what stocks have reached their minimum requirement and/or re-order point, sorry, re-order point then

that provides a chance for staff to review that position and determine whether in fact those items should be re-ordered. But it also provides a first level of justification as to what the staff action actually is, the system also provide a record who has authorised the purchase ultimately.

10 So that if you, I'm sorry, a culprit might, can be more readily traced if there's been something, something wrongful going on in the procurement process.---Definitely. Auditors tend to talk about what they call the audit trail and having these sorts of systems in place provide an accurate record of who's done what within the process and an auditor for instance, can go back from a bank statement to a cheque requisition to a delivery document, to a purchase order to a requisition and track back every person that's been involved in that process.

20 And you mentioned there that, that idea that - and I hesitate to put it this way, but the store staff ought to be properly trained in inventory management and ethics?---Definitely. I think there's usually an emphasis on procurement staff undergoing ethics training and things like that in many organisations but perhaps the stores people are, are a group that aren't given enough attention and enough training in that regard.

30 Yes, thank you. Now, going on you mentioned the possibility of the rotation of staff so that people don't get too familiar with the area in terms of becoming lackadaisical about their obligations?---That's true. It also applies to procurement staff. There's an advantage in, in rotating staff generally involvement in procurement and inventory control because then if there has been an anomaly taking place there's a strong likelihood that the new person who comes in to take over that function will potentially pick it up straightaway and, and not knowingly, you know, question something but just raise an issue of, hang on, this doesn't seem to balance or this seems out of kilter.

40 I suppose to take up what the Commissioner asked you in relation to smaller councils that aspect of rotation may not be available to a small country council, once you trained someone in procurement or trained them in inventory management it might be an expensive exercise to train somebody else after a relatively short period of time?---It, it would be and, yeah, I'm not sure that small councils necessarily have an easy way around that thought.

Your next point is the setting of clear, I suppose, performance indicators for, for the responsible people and that, that KPI, is that key performance indicators?---Correct.

And, and, yes, that - keeping, keeping the goods on hand up to date and only having what you really need to efficiently operate reduces the opportunities for over ordering. Is that, is that so?---Most definitely.

And over ordering is a, is not only commercially inefficient but it's also a fertile area for temptation to corruption?---Certainly if there's no record indicating what the level of stock is, for instance, at the end of the month then there's no way that management can ascertain whether they've got more stock than they need, whether stocks are increasing unnecessarily, whether stocks are actually decreasing because the organisation is running its inventory more efficiently. In the private sector they rely very much on what we call a stock turnover figure which is an indicator of a balance between the, the level of stock you're holding and how long it's going to last. It's an important factor in, in indicating at first glance how well the stock is being managed. There's also a need I believe to segregate the, the level of obsolete stock because that can easily build up where stock isn't managed properly and, and again you, you could find a high level of your inventory's actually stock that you're never going to use again.

One of the, one of the, one of the secondary problems or a knock-on effect of someone over-ordering because they're in cahoots with a supplier is a lot of council's working capital can be tied up on, on goods that just might never be used?---That's correct. You end up with an overstock and potentially some of those become unusable because they, they're out of life, they become, you know, no longer physically able to be used or in some cases they just are superseded by other product lines or changes in, in requirements of the organisation and specifications.

Now, you've, you've addressed I think at the end of that paragraph 10 that if, if its, if you can't adopt what you've prescribed as the best practice then you can at least have as you put it clear and strong written policies and procedures, closer direction and performance review to provide operational confidence in the stores operations. Is that correct?---That's correct. The organisation should at least be able to without great difficulty come up with the value of its inventory on a monthly basis and come up with the value of purchases that have taken place as well as the value of issues and naturally they should all balance but we shouldn't see any unnecessary increase in, in inventory over all.

THE COMMISSIONER: So you need to do a balancing exercise each month?---Yes, but most finance systems should be able to cater for that. If they haven't got the inventory module running to some level then, then it may well be difficult to come up with any sort of accurate figure. But having an inventory system if you're going to run a store is, is really the basics of, of having any sort of organisation that, that, you can rely on.

MR CAMPBELL: And we're about to come to inventory management in just a little bit more detail but just at paragraph 11, you address an issue of the method of payment as being something which can be looked at in terms of minimising the opportunities for corruption. Could you just explain that in a little bit more detail. What, what, what do you mean by, by that?---On one hand councils are trying to be efficient and one of the ways in which

they can be efficient is to use purchase cards. The quandary with purchase cards is that they're, they're more open to abuse. Potentially the purchases being made don't have the same level of justification. Potentially they could be given to people who maybe haven't been given adequate training in terms of, of ethics and probity regarding procurement. So in that regard we may see that, that things happen or are more likely to happen where these cards are used unless there's some appropriate training and some appropriate checks and balances put into place.

- 10 And is that what should be done about it, that you really - the people who have the authority to pay by whatever means really need to be properly trained in, in, as you say, ethical considerations relating to procurement?
---That, that's correct and (not transcribable) that the Commonwealth government where for instance they, they talk about in their guidelines simply procurement, advanced procurement and, you know, the really high level of procurement. Now, in order to, to be involved in procurement at the Commonwealth government level you need to have undergone training appropriate to those three levels so if you've only been trained to the simple level procurement then that's as far as you can go in terms of delegations.
20 We perhaps should be considering similar sorts of things for staff involved in any sort of procurement within local government.

Now just going over the page to, to inventory control, you've discussed some of these already and I think you've touched upon them in, in your last answer but at paragraph 12 you've got five bullet points that you say are basic principles of good inventory control, is that correct?---That's correct.

- And that's knowing what you've got, organising what you've got, keeping it secure in terms of limiting access to it other than by authorised personnel,
30 keeping track of movements of what you've got and checking on it both regularly and randomly. Is that correct?---Correct.

And even a small council ought to be able to manage those type of systems, is that so?---They need to be if, if we're going to have, you know, controls that are adequately in place.

- What about this distinction which you address in paragraph 13 about, you know, between what are called stock on the one hand and non-stock items on the other? What's the, what's the importance of understanding the, the
40 distinction between those two concepts?---A non-stock item is an item which is what we call expensed, a purchase order presumably is raised, the goods are, are delivered, they're paid for but from then on there's absolutely no further control over them. They are placed somewhere within the organisation, it may be within the stores, it may be outside in the yard area, it could be in the possession of another section within the organisation but basically no one's got any control over it. So if you - and what can happen in - again, because councils are, are under pressure to be efficient it's very easy to determine that some area of purchase is such a high volume activity

that let's just expense it because it really doesn't matter where it's going and let's just let it go that way. But I guess the, the difficulty with that is that if somebody decides they're going to be corrupt they could simply order some items and decide to recode some paperwork and charge it against that expense item and nobody's going to know the difference, particularly if they're carrying out the, the stock coordination, doing the ordering and doing the receiving, it's all in the one person's hands. So the expensed item is, is under low control.

- 10 See one of the things that we do know and we'll hear about next week and I'll ask you to assume this, that, that at a certain council completely bogus paperwork was created by a supplier on the one hand and the storeman on the other. And that they were being processed at the offices as though they related to actual orders of real goods that were actually delivered. Is that an example of what you're talking about there in terms of, or is that a different problem?---No, that's, that I would see as being the same sort of problem because you could, if you've got one person in charge of that inventory, they're the one who determines when to re-order. They're the one who knows what the stocks are. They're the only one often that sees the
- 20 paperwork that's raised. They could potentially place an order with a supplier for something totally different to what the council actually requires. The goods get delivered, they sign the delivery docket, they then create a dummy delivery docket off their own computer at home, when the invoice comes in they might even be given the invoice to authorise well they just tear that invoice, create another invoice off their home computer, the accounts department may not be aware that it's, it's been a recreated invoice. It's for the same dollar value though, with just a description that would appear to match what the council typically buys.
- 30 And if you wanted to embark upon a corrupt course of conduct then classifying the item as a non-stock item or saying you're purchasing something which is normally classified as a non-stock item, this makes it, it creates an expectation that it'll be hard to find or difficult to trace it because of the reasons you've rehearsed already?---Definitely, and in fact if it was a larger value purchase they could easily hide it again by making a dummy invoice that lists you know, 20 different items of low value but which add up in total to a significantly high value. If you had the E-procurement type system, then it becomes more difficult to change those sorts of records.
- 40 Yes. So one of the things then that should be done is that, as you say at the top of page 8 in the bullet points, is council really has to understand and it is a recommendation that is being considered by the Commission, that council have to understand, as is put, historical usage patterns to really know what their needs are what the, rather than leaving to any other haphazard way of, of leaving it for somebody to make their own decision about what should be bought when?---And this comes back to good inventory management. There's products that councils will carry which are seasonal types of products. There's other products which, you know, may be increasing in

use because of the council doing particular development work around its area or there may be items that are declining in, in need to be purchased. For instance if they're declining in need we should see a corresponding reduction in stock levels presumably. But without knowing what the historical patterns have been then what might happen is people keep ordering in the same way as they've done in the past.

10 So if councils understand the actual pattern of consumption, then they should be better able to identify which items are really store or stock items as opposed to non-stock?---That's true because if the item has a high level of usage and is of some significant value then perhaps that warrants proper inventory control.

Ah hmm?---If we're, again if we're talking about nuts and bolts that might be high level usage, then you might argue that on one day that it should be under inventory control, but by the same token we're talking about a low risk item with low expense generally. So you need to get the right balance there.

20 Yes. And the third point that, that existing non-stock items be brought back within the store system for secure storage and that they are kept physically separate from store items, are labelled as non-stock and a proper record is kept. I think from what you've described the importance of that might be obvious, but in a succinct way, what is the importance of dealing with those goods in that way?---Well it reduces the risk of pilferage or the, it reduces the chance of people corruptly ordering unnecessary expense items. It means there is some level of security over those items as well. If an expense item is simply allocated either up to an other division without any control or it's simply moved to an open area where it's free for access by
30 anybody, then potentially it could disappear.

And I think you expressed some of those ideas in paragraph 14 and 15 of the statement. Is that correct?---That's correct.

And it becomes an efficient business model itself as corruption
minimisation benefits?---Well that's correct. Because the irony of putting
expense items out in an area where they're open to anybody is that what
might happen is all of a sudden the stock usage does seem to increase, so
what happens the storeman could be quite innocently, realises that hey,
40 we're using a lot more of that so we better order, order some more. So we
start ordering more of items that we don't really need and we don't need
them simply because they're being abused.

Yes. And on page 10 you set out some additional collateral advantages of good organisation in the store?---That's correct.

Now at paragraph 17 you address the issue of, of the storeman being responsible for, at least in part, the stocktaking. Now what's the advantage

of having independent persons conduct the stock takes?---The advantage is that these people can then verify that the items that they're counting actually matched the description allocated to those items. It also gives the, provides a chance for independent people to view what's actually kept in the store. In a normal stock take you will have a team of people allocated to specific areas within the store. So those areas will typically be pallet spaces or racking of some sort or, you know, pigeon holes. And those people will systematically work along those racks or pigeon holes counting each item, If they come across an item that has no (not transcribable) on it then the
10 question can be raised as to why don't we have this item in our inventory. If the independent person who's doing the counting, they also will have a feel as to which or how many items have been classified as expense items and not included in the stock take. And they'll also have a gut feel as to whether there seems to be a significant value in expense items or whether in fact the right sort of items have been expensed.

And I think that we can take it from page 11 in paragraph 18 that you agree with the proposed recommendations appearing at the top of page 11 in
20 relation to good stocktaking practice?---That's correct. The, the opportunity to bring in people other than the stores people to do the counting has a number of values. The stores people still need to be involved in that they need to be provide comment or sometimes advice if the person counting says, well hang on I've got a discrepancy here, is this, you know, does this match up or why doesn't this match up. You know, can you please explain what's going on here. Or we seem to have a major discrepancy is there another stock of this item being held in another part of the store, things like that.

And at the foot of page, foot of paragraph 18, page 11 you've set out
30 yourself five bullet points as to how the proposed recommendations could actually be implemented?---That's correct.

And in relation to each of those five matters, in your experience in Local Government Procurement and Inventory Management should in a small council be able to manage those procedures?---It may present some difficulties for a smaller council, but I feel that the, I believe that the only way that you'll obtain good stores management is where you have some senior member of staff who's actually got their fingers dirty and understands what is actually down there and how well that store is actually organised. If
40 they stay in the administration centre and don't get their, you know, involvement hands on in those stock takes, then they're going to miss an opportunity to have a much better feel for what's actually happening.

Now just moving on now to what you've said about gifts and benefits policy, I'm sorry, about the receipt of gifts and benefits by council employees which is what The Commission has spent most of the hearing time in the last two weeks concerned with. You make the observation that all local councils have in place prohibition on the receipt of gifts and

benefits, even a code of conduct or a separate gifts and benefits policies, I hope I can with respect, make the observation that what we've seen in this investigation is that the promulgation of a policy seems to be insufficient protection against that type of corruption. That is to say the receipt of gifts and benefits by people, particular people responsible for some part of the procurement system.---That's correct. Having the code of conduct doesn't guarantee anything even if people are, sign it once. I think people need to be reminded about the code of conduct on a regular basis and I think that people need to understand that in the event they are placed in a situation where perhaps something has put them at risk or put them in conflict with the code that they know how they should go about handling that issue, who they could talk to or potentially if other people in an area are corrupt, again, how do they deal with that and who can they talk to in confidence.

One of the things that we've come across, I think I can say, in the last couple of weeks is that firstly, some of these policies or codes are very voluminous sophisticated documents and that some of the employees who, if I can put this way, come to grief are practical people involved in what might be called ordinary jobs. They're not general managers or elected officials or the like.---I agree and they are also operating in environments that are somewhat distant from you know their administration centre and I guess in country councils you could potentially have them quite distance where may be they don't even have regular access to any of the staff at the administration centre other than via phone. I think you're also potentially dealing with a slightly different culture in that you've got indoor staff versus outdoor staff. Indoor staff are clearly always dealing with paperwork and processes that are paperwork or computer based and perhaps a different understanding, a different level of understanding of the systems and the ways that they operate. The outdoor staff for instance, are very much manually orientated and physically orientated.

If I can just take one example and ask you to assume for instance, and that if I may mention it, we've heard the evidence is the Lithgow City Council. In that case we heard evidence from three men, one of whom was the supervisor of the water treatment section and two others the person responsible for two of the plants, one at Wallerawang and one at Portland that were concerned with that matter, so to speak. We heard that each of those people were the receipt of inappropriate gifts from suppliers even though of the three of them, only one of them had any authority or delegation to buy the council in relation to the purchase of the supplies. How do you solve a problem like that?---I think you've got to give staff reminders and potentially it might need to be done on an annual basis but I know in my own experience I had to fill out a pecuniary interest form every twelve months and to me that reinforced the fact to me that there were things that I needed to be cautious about I needed to declare anything that was put to me but I'd suggest to you that many staff working in stores environments and outdoor areas just never see anything like that and perhaps that's not the sort of thing that they need to fill out anyway but they

need to be reminded. I can also remember that quite some years ago I attended a training session by ICAC staff which I, I remember a particular aspect of it even to this day and I actually give it to my TAFE students and it was a scenario where potentially a junior procurement person is obtaining some quotes and decisions and that the right place make the purchase is with company A but the supervisor of that person says, "No, no, no, I want you to give to company B." And the junior person things, gee, I don't think that's right, you know and the, you know, when you get into a group situation and talk through this sort of scenario I guess the right outcome that everyone arrived at was that the matter needed to be brought to a head but how does that junior person do it? Do they simply go above the person, above the supervisor? Well that creates political problems. But it needs to be addressed and we determined that the appropriate way to address it was to front the supervisor and say, "Look I really don't think that's the right decision, I'm not comfortable about this, can we take it up to a higher level." Now you could also have a situation where ultimately that junior person should decide to move on if the level of corruption is that rife. But potentially there are ways that things can be done in order to bring, bring matters like that to a head and people need to be given scenario where they can understand their options.

THE COMMISSIONER: One way of dealing with that I suppose is to require any choices in writing and all recommendations to be in writing and for that to be kept so that if the senior person overrides the junior person there's a record of that.---That's defiantly an option and I've again, through TAFE I have copies of requisition documents from the army where in fact they have exactly that sort of thing. Whenever they requisition something there's a section in the document that says why they had determined that particular supplier to be the dedicated supplier, they have to put the comment there and that's held on record.

You could have some requirement to record an explanation when the senior person decides on a different supplier?---That's correct, that could be put in place too.

MR CAMPBELL: I suppose, if I just go back to the problem of say the junior mechanic who is responsible for running the water treatment plant at Portland, how does he resist the temptation of the gift vouchers? One way of doing that of course is to, is to exclude him from having anything whatsoever to do with any decision about procurement?---Yes, and this comes back to the separation of duties as well. I believe that people without appropriate procurement training shouldn't be making procurement decisions and shouldn't be making regular contact with suppliers. Suppliers should be dealing with somebody higher up who has appropriate knowledge of correct practices and you know processes and so forth.

THE COMMISSIONER: Mr Scott, do you find that meetings or oral courses more effective than simply providing written materials to staff?---I

believe it needs to be a combination, I believe you need to have written material but that written material needs to be presented in most cases, in some sort of training session. In my experience what we, what I've done in previous organisations was that we would run a training course for people who were going to be involved in procurement on a regular basis and make sure that they were given the guidelines that they needed to and also given the chance to ask queries and question and raise issues.

10 MR CAMPBELL: Not all of the, I'll withdraw that. The Local Government and Shires Association has standard codes of conduct which councils adopt, I think.---I believe that's the case. I certainly have seen that standard code.

Not everyone has, but not everyone adopts it in the same way I think we've seen in the evidence in this case. We've heard evidence from some of the people who've been snared in some of the conduct by suppliers that there is often confusion about what the code means. For instance, we've seen at least examples of a code that mentions a dollar figure in terms of what's a nominal gift and both of them were along the lines, a nominal gift was not
20 exceeding \$50. Now do you think that type of policy is ever justified in local government because these people misunderstood it as saying that, or misunderstood it by thinking that a \$50 was fair game?---Potentially they have misunderstood it my personal view these days is that we'd all be a lot better off if we just didn't except gifts, if we had policies that said no gifts are acceptable.

30 THE COMMISSIONER: Absolute policy.---Absolute policy however, I also recognise that presents some problems because you then run into this issue where when you do need to meet with a supplier - - -

Well, you could have stated exceptions for coffee and cake.---Yes, and that's the sort of scenario that I'm thinking of.

That's not really a gift?---No, but, but I, I think that - - -

I don't understand how that can be regarded as a gift or a benefit?---I suppose it depends on the time of year that it might be, what the reason for the meeting is, what the level of - if it's, if it's a lunch what the level of the lunch is. If we're just talking about a cup of coffee I don't think many
40 people are going to end up in a criminal activity as a result of that.

I just can't see that, I mean, it's surely not necessary to put that in writing? ---That they can't accept any gifts or - - -

No, they can't accept coffee?---Well, look, the practicalities of business life require those sorts of meetings to go on.

Well, that they accept coffee but no gifts?---I think - my personal - - -

I mean it becomes ridiculous and it's - one shouldn't regard providing something by way of good manners or - as a gift?---I don't have a problem with a cup of coffee and so forth, it's when physical things or, you know, and we're talking about gift certificates start to come into it.

That's right?---That's when I have a problem.

10 Yes?---But I also think there, there is a problem for many staff if, if they receive a bottle of wine. Do they understand it's a \$130 bottle of wine or is it a \$6 bottle of wine.

It's a gift?---It is a gift and I think it's far, far better for all of us if gifts like that just aren't allowed to be given.

Absolute prohibition?---Mmm. I, I think that would be better for all of us in the long run.

20 For their own protection?---Yeah, yeah. And then there's, there's no embarrassment, there's no hiccup, we act in the same way.

MR CAMPBELL: What are the policies - we've seen in evidence distinguishes between or at least defines token gifts, nominal gifts, gifts of value, a series of gifts, I mean, do you think that, that, that - those kind of distinctions are simply apt to create confusion especially in the minds of relatively junior staff?---I would think that junior staff certainly could be confused about it and I could also think that even senior staff in some areas of an organisation could be confused.

30 THE COMMISSIONER: There is some evidence that trainers are confused?---Could be too.

MR CAMPBELL: Indeed that is so, Commissioner.

So the absolute prohibition if the Commission were minded to consider it has merit for the reasons you've expressed?---I'd prefer that we didn't accept gifts.

40 And that would be, that would be an easy policy to apply as well, would it not?---It would be and I think the message would soon get across to suppliers.

THE COMMISSIONER: If you accept a gift you have your hand chopped off.

MR CAMPBELL: Figuratively speaking I think the Commissioner means? ---Whatever the policy says.

I mean, and that would be easy to apply across the board whether or not you were engaged in procurement?---Well, I would have thought so but certainly if you apply it to procurement then, then again it starts to reduce that risk and it sets a standard across the, across the industry.

THE COMMISSIONER: Well, there's no - then there's clarity and there's no room for misunderstanding?---That's right - - -

10 And there's no room for argument?---Even if somebody wants to give you a ballpoint pen, there can be no offence in, in the standard answer is, I'm sorry I can't accept it.

You can have a notice up in our office saying council - the council forbids any gifts of any kind being given to members of its staff?---That's what I'd like to see.

20 MR CAMPBELL: And everyone will know where they stand. One of the, one, one of the things that's sometimes said about prohibition is that you, is that you can force even what might otherwise be innocuous activity underground as it were. Do you understand what I mean?---Yes.

Do you have an answer to that question?---We need to determine what's the most appropriate way to deal with, you know, some of these sorts of business practices. My view is that no gifts should be given and that's, that's the position I've adopted after 25 years of, of seeing this sort of thing taking place.

30 But we see it going underground here, in this case it went underground in the sense that it was sent to the homes of the employees even though in many instances they had policies saying you can have a gift less than \$50 so it stills goes underground. You're never going to be able to stop that if you have someone who's determined to become involved in, in corrupt conduct? ---But perhaps that's where the, the monitoring processes start to come into play and whilst they won't provide the answer to everything they will provide some means of, of discovering anomalies that are happening within the procurement process. So if you've got, for instance, a particular supplier who all of a sudden is getting the bulk of all of the ordering for a whole range of categories of product via monthly reviewing of the exception reports you can determine who's getting all that expenditure, who's
40 allocating that or who's allocating those purchase orders, you can then review why all that expenditure is going that was and whether in fact that is justified and that's a fairly simple thing to do via a monthly report, an exception report that spits out the amount of or the details of any orders or total value purchases exceeding a certain amount.

THE COMMISSIONER: And I think you put it in your statement the corollary to that, if that were to be the policy, the corollary to that is that you send, you'd send a copy of that particular part of the policy to all suppliers?

---An advantage of informing all suppliers is that they become aware and can't deny that they know what's going on. It also sets the standard because many suppliers are, are quite honest. Most suppliers I would have thought are honest and it's only a smaller number who are going to adopt these corrupt processes.

MR CAMPBELL: Should any supplier ever have access to the mechanic who runs the treatment plant at Portland?---To be honest I'm not familiar with the structure there but, but I would suggest to you that there is
10 advantage in - again that, that differing of, of levels and responsibilities and so forth, presumably the mechanic is the end user and there may be good reason why he needs to talk to a supplier in regard to some technical matters but perhaps in that sort of instance he should be being accompanied by the procurement person or somebody who again has that, that next level of segregation.

So if for good reason he has to meet the supplier he shouldn't do it alone?
---Correct.

20 And I guess, and I've given you a particular example thrown up by the evidence here but there are other examples here as well, for instance, the council that, that, that provided a dedicated parking spot to its, to, to sales rep outside its store. It sounds like an invitation to come in and talk to the store person rather than talking to a procurement officer. Do you agree with that?---Definitely agree with it. I don't believe salespeople should be talking on a regular basis with stores people. Stores people aren't the right level of person in the organisation.

30 Or we had the, the example of the, the salesman who could telephone the parks and gardens supervisor on his mobile phone and go and meet the, the supervisor out in the field. Is that satisfactory do you think?---In most cases I would have thought that that phone call should be going through procurement so that you've, you've got again that segregation and involvement of a third party in the process.

40 Now, the, at paragraph 21 of your statement you address an issue which we've heard some evidence about and that is to say the, the type of strategy adopted by some salesmen and you make specific reference to a publication that we have heard and seen, heard of and seen in evidence here called "The Gears of Selling" and, and can you tell us what you think about those kind of - I withdraw that. The main thrust would you assume from me of, of that sales manual is to create a psychological dependency on the part of the customer's employee on the salesman so that there's a feeling of obligation to, to purchase goods from that person. Are you familiar with those type of techniques adopted by salespeople?---Certainly, look, and I can remember in, in the private sector when I worked there many years ago, you know, being invited to Christmas functions and so forth and there's no doubt in my mind that any sort of activity like that or even a gift can just create that level

of association and, and I guess relationship that, that makes a person feel a little bit obligated and uncomfortable if they determine that an order has to go somewhere else.

10 And how do, how can public sector employers discourage private sector suppliers from adopting those type of techniques?---Well, one of, one of the ways of course is to have the gifts policy, one of the ways is to discourage salespeople visiting unless the situation really warrants it. Most procurement staff don't see suppliers and salespeople unless they really need to because they're busy enough doing the, the job that they've got at hand.

THE COMMISSIONER: It does occur to me that one way of dealing with this is to at courses involving procurement staff but also storemen and all people have a hand in these processes in local government, when they attend courses they should get a course on the Gears of Selling?---There's value in that, most definitely, because then - - -

20 They should see, the people who are the target of this kind of technique should, can be made aware of what psychological means are being used to persuade them to place their orders. And these are means which have nothing to do with the merit of the article being sold?---I agree with that because most, certainly stores people and even many procurement people would have no idea of the level of understanding of sales and marketing training. As well as that if you were to look at the level of sales and marketing training that goes on on that side of business, it far exceeds any, any training that's given to procurement staff, whether it be the private sector or the local government sector. And they're in as a major disadvantage even in terms of just understanding negotiation techniques and
30 body language and all those aspects.

On pages 14 and 15 you deal with again some further proposed recommendations being considered. And at 22 you, you say why you agree they may be effective and I think that some of the evidence you've given in the last few minutes summaries some of those considerations. Is that fair?
---Correct.

40 And, all right, now can I ask you, just taking you to page 15. You've already mentioned to us the circumstances in which you think it's appropriate for council employees to meet sales staff. And indeed you've emphasised at the foot of page 15 there must be a genuine need, and apart from that then there's no need for sales staff to interact with stores staff. And I suppose apart from that there's probably no reason for them to interact with operations staff who are the end users. Would you, is that, am I right about that or not?---I'd agree with that. If operational staff have a particular need or if there's a situation where the current products aren't servicing what their requirement is, then really what they should be doing is going back through procurement staff who will then do their own survey as

to what alternatives are available in the marketplace. Do the research and obtain, you know, technical information and if necessary organise sales people to come in and then in conjunction with the operational staff they can all discuss it and determine the best outcome.

10 I think you've highlighted this already, but at the foot of page 16, you're talking about an area that I asked you and with respect, the Commissioner asked you about, and that is to say the appropriateness of the common Codes of Conduct in this area. And you make the point, I think at the top of page 17, that you know, the Codes, the Code, using the language like guideline or a Code is a bit misleading, it should be made clear to staff that these are directives. Is that correct?---That's my position.

And that it's not a matter of staff considering issues or exercising discretions, they should be given clear guidance on what they, what's required of them. Is that right?---That's correct. The problem with a guideline is that people see it as exactly that, something that, okay it sets a bit of an understanding as to what can happen, but I'm not bound by it.

20 And that's why for the reasons you earlier explained, you're a prohibitionist rather than a discretionary considerations man. Is that so?---That's the position I have moved to after a number of years of procurement experience, yeah.

THE COMMISSIONER: Well it's the position I've moved to after less than two weeks of hearing this evidence.

30 MR CAMPBELL: And I think finally we come back, and I think this is more (not transcribable) Mr Scott, that what you say on the, on the last paragraph, but you think part of the answer is a professional approach to procurement by local government?---I believe that's something where local government is maybe lagging compared to the private sector. Ever since I left school the private sector has always had people trained in procurement, people operating at a high level in procurement. I saw a job advertised recently for \$180,000 for a procurement management. We don't see the equivalent sort of thing in local government and I'm not suggesting that that high a salary is what's necessary, but I'm suggesting that what we need is people who are trained in procurement, who can give the organisation some solid advice in regard to procurement activities and how they should be
40 coordinated.

And as you've said already one of the advantages of having a professional approach is that professionals have ethical standards by which their performance and their conduct can be easily judged?---Any training, any dedicated, any approved training course for procurement people covers that subject as a major area.

THE COMMISSIONER: Mr Scott, I think I'm just taking up something that you've said, but we've seen in the last nine days evidence of, apart from a possibility that purchases have been made, not because of the intrinsic merits of the goods but because of the relationship between the buyer and the seller. But the personal tragedy that has been, that this has led to involving people who have in the past devoted years and years of their lives to local councils. And when one sees that it becomes, it becomes rather odd to hear from an expert such as you that, that councils do not appear to take the issue of, of procurement as seriously as it's taken in the private sector, particularly with regard to spending the money to get properly qualified persons to do the job. Is that, is that really what you're saying?---I agree with that position. The councils often put the responsibility for some of these areas on business managers within the organisation. And those business managers are set up to obviously run their business units effectively and so forth. I guess anyone with any organisation based on their, you know, professional background will be guided by the core things that represent that professional background. Unfortunately in nearly all the professions that you in (not transcribable) so that's where many of your managers are coming from, they are trained to any, you know, strong degree in procurement. So procurement is a secondary function. If you were talking about a project manager within an organisation, that project manager is, is keen to see the project coordinated well, finished on time and finished within budget. Theoretically the procurement side of things should be a significant part of that. But there can be other factors that impact on the way that that project is run.

And I think that what you were saying really as well, please correct me if I'm wrong, is that if the councils don't have the money to do this, the only, the secondary way of dealing with this is to implement much closer control over procurement, make policies much clearer and apply a prohibition policy against accepting gifts of any kind?---I'd agree with that but I'd go one step further. If the, if the council is in position where it's, you know, financially it's not in a position to create a position or allocate a responsibility of the right level, then perhaps at the very least it should be nominating a particular senior manager who has, has the responsibility to oversee procurement as, as a general function within that organisation. Not necessarily specific, but at least, at the every least just set in place some policies and guidelines and ensure that the organisation as a whole has some direction in regard to procurement.

It's my, it's really the affect of all this evidence that I should explain that we've heard over the last nine days that lead to my flippant remark about the appropriate penalty for accepting gifts. The underlying point that I was trying to make is that there should be absolute clarity on that and there should be, how would I put it, council staff should be able to understand it clearly that if they accept gifts of any kind the consequences would be serious.---It there's a no gift policy it's pretty clear and it makes it easy for all of us.

What should be the penalty then if policy is not complied with?---Well, I guess it would be up to the council to determine how significant the error is.

That's right, yes.

10 MR CAMPBELL: And I think you've said at paragraph, I'm sorry 23 at top of page 17 if you have a firm directive and it must be followed you've got to make it clear that failure to comply will result in serious consequences and you've described the range of consequences, loss of job, prosecution, demotion, financial penalty.---Correct.

Nothing further Commissioner.

THE COMMISSIONER: Mr Harvey I see you've been sitting here patiently.

MR HARVEY: Yes.

20 THE COMMISSIONER: I'm not sure whether you're here purely out of interest or whether you have some questions you wish to ask.

MR HARVEY: Perhaps both. I don't wish to exceed the leave which you've kindly granted and I appreciate that the evidence of this witness is in the context (not transcribable)

THE COMMISSIONER: Any questions you have as long as they're relevant would be helpful.

30 MR HARVEY: Thank you Commissioner. There's just two areas of Mr Scott's evidence I'd like him to elaborate a bit further if he would.

THE COMMISSIONER: Just explain to Mr Scott who you represent, please Mr Harvey.

MR HARVEY: Yes, Commissioner. My name's Ian Harvey I represent the Roads and Traffic Authority in a more or less limited capacity. There are two aspects of your evidence I'd just like to ask you some questions about if I may Mr Scott.

40

The first deals with the dot points that you have at page 4 and my learned friend Mr Campbell has taken you through that which, as I understand it sets out the process for procurement which really starts from the initial inventory replenishment and order of supplies right through the buying stage to the actual receipt of the goods and you've referred to this process as the end to end control process. Am I right in understanding what you've - - -?---That's correct.

The thrust of what you're put I think in respect of that is to break the continuum by having cross checks, balances and in particular by having different personnel along that line being accountable for different aspects of the process. Is that right?---Yes.

10 And you'd agree with me that the storemen in the sense is at the coal face when he or she obtains the request from whatever division or area of a local government authority or in my case a public authority as with some sort of request for a particular product or good. You accept that the storeman is often at the coal face of that, of that interface with their own internal group?---Yes, and if it's, if we're running the store then presumably the storeman is the one who determines that the stock level has reached the point where it needs to be re-ordered or do we need alternate stock, things like that.

20 As I understood the evidence there's circumstances in which inventory replenishment becomes an automatic aspect of the storeman's tasks but there may be other occasions in which a storeman is requested for a particular product either because inventory is below par or because there is a special need for it.---Correct.

And in that sense that person's at that coal face/interface with the people who are in the organisation who are requiring a particular good for a particular operational purpose. Do you understand that?---Yes.

And at the other end is the certification of the receipt of the goods so the end to end appears to be the placing of the order, or the replenishment of the product and the actual receipt of the product by that storeman.---Correct.

30 In that sense a storeman can perhaps be at that level at which he or she might be subject to someone saying, "Well, where the heck is my rubber gloves, I've ordered them, you've ordered them, where are they?" And that storeman may perhaps have some knowledge about a supplier about how efficient that supplier is or some aspect or some attribute of that suppliers ability to supply that product. Do you accept that?---Yes.

40 And I'm just wondering whether in the break down of the steps which you very conveniently summaries in paragraph A on page four and I think you reflect in a summarised form at paragraph 22, where you say the storeman can requisition goods only. And my question is, is there any room there for the storeman to actually (not transcribable) of that storeman's experience or ability to identify a particular source or supplier that may, for that particular requisition be an appropriate source?---Storeman through their knowledge will be well aware of what suppliers have been used in the past or supplier of basically a new item in the inventory. The suppliers that have been used in the past will also be recorded within the inventory modular the computer system if that's been set up and if it's been used appropriately and set up appropriately. Likewise, at the procurement level, the procurement people

will be aware of who the options are. In procurement systems that have been set up fully the information either has been keyed in to indicate what the standard lead time is but the system itself in the more advance systems it will also describe the lead time that typically apply to all of the orders that have recently been placed.

10 I take it from that that in a sophisticated system there should be no real need in that context for a storeman to even indicate a particular source for a particular product that's the subject of his or her requisition order?---In a number of advanced systems what will happen is that if either the storeman or a procurement person could push a report button on a daily basis and they obtain a printed report that tells them what stock levels have reached the re-order point and it will also tell them who the potential suppliers for those goods are. It's still to be determined as to who will receive the order for those goods, but of course the lead time can be checked as well.

20 I suppose at the end of the day the point I'm really driving at is whether there's any room in your view in terms of setting forward an improved system to in fact preclude as part of the process the storeman who's got the requisition authority from even recommending a particular supplier to fulfil that particular requisition?---In the storeroom system that's been fully implemented or reasonably fully implemented, that, that sort of information is within the system (not transcribable) there.

Yes. All right?---In the event that we've got a system that's not fully implemented then it may well be appropriate for the storeman to indicate on the requisition who was the previous supplier, but ultimately it should be determined by the next level up.

30 All right. And I think, am I right in saying that the logic of that line of thinking would be that really you would limit perhaps put it no higher at this stage than that, the scope or authority if you like for the storeman to actually indicate a particular preferred supplier at all?---I don't see any problem in the storeman indicating a potential supplier, but the procurement person is the one who should be determining who the supplier will be based on best value.

40 You see one of the concerns is that if the suppliers understand that the storeman is actually in a position to actually influence the process even though the storeman doesn't under a system that you've just recommended, set out, have any financial authority or even any budgetary approval at all, have no financial responsibility at all, but nonetheless that person could influence the storeman's decision making process, if you like, in terms of that storeman on the form itself writing down what about blocks or I recommend blocks for this particular procurement. Do you have a view about that as to whether that's something that ought to be proscribed from the system that you've just (not transcribable) in your evidence?---Well this comes back to my view that sales people shouldn't generally be dealing

with the stores people directly. So if that's not happening, if stores people aren't dealing with sales people, then you've limited that level of pressure.

I thought you'd agreed with me before that at times, particularly perhaps in the country, stores people may be in a position of peculiar knowledge about local suppliers and perhaps in a centralised system where the purchasing officer has ultimately got the financial responsibility and the approval authority, nonetheless that central buying authority doesn't necessarily have all the knowledge that the local person has about who's an efficient supplier?---I believe it's the procurement person's role to obtain the knowledge about the different suppliers and the different products in order to be able to carry out the job satisfactorily. Certainly stores people over time will become knowledgeable and so they should be about different aspects of products or suppliers but I still believe ultimately that decision should be made at the procurement level. I'm not sure that a storeman recommending, simply naming a supplier on a requisition creates a level of pressure on the procurement person to make a decision.

All right. Thank you, that's the first area. The second area is really going to what you've identified I think in respect of the gifts and benefits policy and in particular training which I think is your second dot point on page 13 where you say under - which is part of paragraph, your paragraph 19, that to ensure that all staff know what the gifts policy is councils need to consider alternative ways of directly communicating these messages to staff, for example, using staff newsletters or an attachment about the gifts policy to payslips. Can I ask you whether you have come across a notion of facilitated online training or online learning?---I'm familiar with that sort of learning, yeah.

And perhaps just explain what you understand by facilitated online learning?---Well, I suppose my experience is more through the TAFE application and that sort of thing where TAFE may put together an accredited training course and people who either because they can't attend on a regular basis to, for instance, an evening class at, at the TAFE college or who may be living in more distant areas from where the college actually is can undertake that training by logging in via the Internet and, you know, reading through notes, answering specific questions as part of an assignment and, and submitting assignments like essays and so forth to be marked by the, the relevant trainer.

Yes. Have you come across that though in the context of public sector organisations of the kind that we've been inquiring into, that is, situations in which either link to the KPI's that you referred to in answer to my learned friend, one of my learned friend's questions earlier, or linked to some performance review or otherwise an aspect of periodic performance review that a person must answer by virtue of the facilitated online learning a number of questions and included within those questions are questions

about their knowledge of the gifts policy?---I haven't come across that personally, I can't say if it does exist in local government.

All right. Have you had any dealings at the, at the Commonwealth level, for example, Department of Defence?---No, because I've not, I've not dealt closely with, with those organisations.

Or, or the RTA, you have not - - -?---I have not had dealings with the RTA.

10 What I'm getting at is that in terms of reinforcing the message which I think is an aspect of an underlying theme of a lot of your evidence of reinforcement of that message and constant reinforcement of it, do you see a role for facilitated online learning to be used as a vehicle or tool to enhance that ongoing message?---I think that, I think that's one way that staff could be reminded quickly about different things but - and, and in the event that staff have undertaken formal training then to provide a level of training like that that can be done quickly and also have the questions to ascertain, to ensure I guess that the staff understand the intent of whatever the, the guideline or policy is would, would be of value.

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All right. And perhaps finally, just dealing with the issue of whether there should be a prohibition against gifts and where there are definitional issues as to what is a gift, I don't want to engage you particularly on that, but one thing I - and correct me if I'm wrong, please, sense about your evidence is that you don't refer to the value of disclosure at all and I'm wondering whether putting aside for a moment what the best system is, whether it's prohibition or, or something else, is not part of the message that needs to go out to persons particularly at the - and I don't mean this in a pejorative sense but those persons who are the lower end if you like of the procurement process, that the message needs to go out that they need to be willing, able to disclose anything and in particular the offer or their acceptance of a gift and what I mean by disclosing is disclose either by recording it on a register or preferably by communicating the fact of the offer or the acceptance of the offer to a senior manager?---I would agree with that because I think that there is some scenarios where people are left in a quandary as to what they should do. I actually attended a conference earlier this year by, which was run by the governance people in local government and one of the speakers was talking about a scenario that they had encountered where somebody had proposed an inappropriate action to them and I must say that I actually learnt something out of the process and that person was actually was actually describing the steps that they undertook after that activity had occurred and I thought hey, that's really good. I'd never thought of, of some of those things so I do believe that people need to be, I suppose, run through certain scenarios and reminded about what their options are because sometimes we can all forget.

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THE COMMISSIONER: I all these cases there is a gifts register, there is a policy of disclosure and nobody disclosed it?---Okay.

MR HARVEY: Thank you, Commissioner.

MR CAMPBELL: One thing, Commissioner.

10 Those behind me are getting very anxious, I should point this out,
Commissioner, that when my learned friend Mr Harvey was asking you
about the dot points on - I'm sorry, at, at page 4 of the, of your statement,
those, those dot points are in fact part of the proposed recommendation from
the Commission's corruption prevention arm. Is that so?--I understand that
to be correct.

Thank you. Nothing further, Commissioner.

THE COMMISSIONER: Yes, thank you. Thank you, Mr Scott, for that
valuable advice you've given us and you're excused?---Thank you.

THE WITNESS EXCUSED

[3.37pm]

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MR CAMPBELL: Commissioner, that completes the evidence for today,
indeed for the week. We have finished - - -

THE COMMISSIONER: We will adjourn until Monday at 10.00am.

MR CAMPBELL: Thank you, Commissioner.

THE COMMISSIONER: 11.00.

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MR CAMPBELL: 11 o'clock Monday. Thank you, Commissioner.

AT 3.37 PM THE MATTER WAS ADJOURNED ACCORDINGLY

[3.37PM]