

12 Month Progress Report

Operation Jarek

Ballina Shire Council

Recommendation 1.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

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

Council continues to distribute a document titled "Important Information for Sales Representatives and Contractors" which highlights that gifts and benefits are not to be offered as part of the procurement process.

Council also continues to write to any new suppliers advising of our expectations and a further reminder to all suppliers was sent on 6 December 2013.

Supporting material

- Template correspondence for new suppliers
- Covering letter regarding supplier behaviour standards – this letter was last issued in December 2013 to approximately 1,000 suppliers

Evaluation of implementation (Progress update)

The primary method of evaluation is through feedback from an internal procurement group, which consists of all major internal stakeholders (i.e. finance, creditors, information technology, line managers, store staff etc). The consensus is that there is a greater awareness from suppliers, albeit that this is a difficult process to measure and the communication must be on-going.

Recommendation 2.

That councils develop a proactive and comprehensive supplier engagement framework.

Summary of progress

The recommendation is implemented as described in the report

Action taken to implement recommendation

As per recommendation one, and as previously reported, Council has a comprehensive framework consisting of:

- Communication of Council's Statement of Business Ethics
- Communication of Council's Interaction with Sales Representatives Procedure
- Covering letter to suppliers regarding the standards of behaviour expected, distributed to all suppliers – We are now proposing to undertake this once per annum as twice was considered excessive
- Inclusion of the Statement of Business Ethics in Tender and Quotation documentation
- Pre-tender meetings to include a segment on the Statement of Business Ethics

Council has also recently recruited a new position to the organisation being a Strategic Procurement Co-ordinator. The role of this position is to oversee Council's procurement functions and to pursue purchasing improvements and increased accountability with staff and suppliers. A key task will also be to monitor and improve our communications with suppliers.

Supporting material

- Minutes of recent procurement meetings involving the Strategic Procurement Co-ordinator – There are now two groups reviewing our procurement practices being the "Purchasing Practices Review Team" which consists of largely front line staff and the "Strategic Procurement Steering Committee" which consists of managerial staff.

Evaluation of implementation (Progress update)

Again difficult to identify a meaningful measure – one of the more pleasing responses has been from staff during a one day training session in respect to relational selling. When the attendees, who included a wide range of staff across the organisation, were asked about their own awareness and the supplier's awareness of Council's procurement practices and standards, there was a very positive response confirming that in their opinion there were high awareness levels as compared to previous issues.

Recommendation 3.

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

Summary of progress

The recommendation is implemented as described in the report

Action taken to implement recommendation

As previously reported Council has proactive gift and benefits processes in place, through documented procedures, regular six monthly updates to all staff and training sessions on this topic.

Supporting material

- Copy of a recent staff newsletter advising of gift and benefits procedures.
- Extract from gift register highlighting the use of the register. Also attached is a note from staff based at the Council ferry documenting cash that was left with them. The staff followed correct procedures and reported this matter with the money then being receipted to Council as the provider was unknown.

Evaluation of implementation (Progress update)

During the past 18 months we have had no known breaches of our processes with staff continuing to utilise our gift register for items which have been provided to staff, often without the staff member having an opportunity to decline the gift.

The feedback from staff is that the frequency of gift giving appears to be decreasing, although this comment cannot be substantiated by any empirical evidence.

Recommendation 4.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

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

The staff delegations template was also amended to ensure staff in accepting that delegation acknowledge they have read our Statement of Business Ethics, gifts and benefits procedure and sales representatives procedure.

An annual reminder is being issued in February / March each year to allow all staff with procurement delegations to confirm in writing that they are aware of our procurement procedures and the content of their delegations.

Supporting material

- Copy of revised and signed delegation template for procurement – Refer to Clause 4 and third dot pint in delegation signoff
- Correspondence template for new procurement delegations
- Correspondence template for annual review of procurement delegations

Evaluation of implementation (Progress update)

The evaluation method has been to monitor the use of the Council gift register, to ensure staff are fully informed in respect to their responsibilities and to encourage all staff to report any breaches.

From a management perspective the frequency of reporting for the provision of gifts, typically minor or token, has been pleasing in that it highlights a high level of staff awareness.

The matters listed in the gift register have normally been sent to staff or have been left for staff, thus not allowing staff the opportunity to decline the gift. A determination is then made by the General Manager as to how best to manage the gift (return, dispose etc).

Recommendation 5.

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

Summary of progress

The recommendation is implemented as described in the report

Action taken to implement recommendation

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

Supporting material

- Copies of minutes from staff section meetings highlighting where Code of Conduct Training has been provided.

Evaluation of implementation (Progress update)

Staff training is on-going and no formal examination or survey of the results of the training has been conducted as that option is considered to be impractical.

Recommendation 6.

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

Summary of progress

The recommendation is implemented as described in the report

Action taken to implement recommendation

A specific training program was developed for Council in respect to relational selling. This training program was provided Mr Norm Turkington who was engaged by Council through LGNSW. It is understood that LGNSW is now offering this training program across the State.

Supporting material

- Relational Selling Awareness – course presentation

Evaluation of implementation (Progress update)

The evaluation method related to the feedback in respect to the training undertaken with the attendees confirming a far higher level of understanding of the tactics used by salespersons. This training will need to be repeated approximately every two years.

Recommendation 7.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

Council continues to work through the reviews undertaken of our processes by Local Government Procurement and the PMMS Consulting Group. As mentioned earlier the position of Strategic Procurement Co-ordinator has been recruited by Council to oversee the implementation of procurement improvements.

A range of actions are being taken to constantly improve processes and minutes of recent meetings and associated actions are attached to demonstrate the issues being pursued.

Supporting material

- Procurement meeting minutes (supplied at Recommendation 2)
- Email from Strategic Procurement Co-ordinator dated 19 February 2014 outlining improvements to Council's intranet information in respect to procurement

Evaluation of implementation (Progress update)

Council has had internal audits completed by an external provider to review our procurement practices. Refer to recommendation 15 for further information on this independent review.

Recommendation 8.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

Council has had an e-procurement system in place for a number of years. This type of system does not provide total protection against fraud and improvements and audits need to be pursued to ensure compliance with the system. These types of actions are being implemented through recommendation seven.

The existing e-procurement system, as provided by the third party supplier (Civica Authority) still requires further improvements. Council is currently pursuing software upgrades to improve the data available from the system. The Strategic Procurement Co-ordinator has developed a User Requirement Statement for Procurement as required by Civica before providing that upgrade. Council will be financing these improvements at a cost of \$17,500.

Supporting material

- User Requirement Statement - Procurement

Evaluation of implementation (Progress update)

Nil

Recommendation 9.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

Council's reporting has improved significantly during the past 12 to 18 months with the availability of the following reports, as previously advised:

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

In addition to this Council staff are working with Civica to improve the list of standard reports provided through the Civica Authority System.

Supporting material

Nil – copies of reports previously provided.

Evaluation of implementation (Progress update)

The information in these reports is subject to on-going review by the members of Council's procurement team.

Recommendation 10.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

An internal audit was undertaken in respect to our inventory management systems that identified areas for improvement. Those recommendations now form part of our on-going improvement program.

A copy of the internal audit report is included as an attachment to recommendation 15.

Also during 2014 the Strategic Procurement Co-ordinator will be introducing the “Auslang” Standard for codification and data cleansing, along with the development and documentation of Inventory Categorisation Rules and Guidelines.

Supporting material

- Internal Audit Final Report – Inventory Management

Evaluation of implementation (Progress update)

The internal audit report provided an overall rating of “needs improvement”. Further reviews will be conducted as the improvements are implemented.

Recommendation 11.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

During 2013 a major clean up was undertaken of Council's depot to ensure that any stock not recorded in the store was categorised and sold if surplus. This resulted in a significant amount of stock being sold which again highlighted the need to improve practices to ensure that all stock at the depot, and other Council sites, is monitored and managed.

The cataloguing and continued expansion of our inventory to encompass goods stored under various arrangements is a work in progress.

The aim going forward is to insist that ongoing requirements of goods are to be facilitated through the inventory function.

Supporting material

Nil

Evaluation of implementation (Progress update)

The evaluation method in place is to monitor goods that are being held at the depot to ensure that goods not in the store are minimised and the use of the store is maximised.

Recommendation 12.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

As previously reported all goods in the Council store are labelled clearly and movements are thoroughly tracked.

Further improvements in regard to inventory management are a work in progress with the new position of Strategic Procurement Co-ordinator overseeing this task.

Ongoing improvement will be an outcome of the implementation of Inventory Category Rules and Guidelines and improved procurement practices. A review of warehousing facilities is planned during 2014 along with a possible expansion to establish a gated compound controlled and owned by store staff.

Supporting material

Nil

Evaluation of implementation (Progress update)

The six monthly stocktake results (along with regular random stocktakes) are the evaluation method for the accuracy of the store. A sample of the six monthly stocktake results is included with recommendation 13.

Recommendation 13.

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

Summary of progress

The recommendation is being “largely” implemented as described in the report

Action taken to implement recommendation

As previously advised traditionally an independent person from Council’s finance section oversees the six monthly stocktake of Council’s store. The store staff normally undertake the stocktake as they are more familiar with the stock, with the finance staff member providing an observer / audit role.

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

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

This process commenced at the 30 June 2013 stocktake and has operated effectively for the last two stocktakes.

Supporting material

- December 2013 stocktake results - memorandum

Evaluation of implementation (Progress update)

This change in methodology has not resulted in any significant difference in stocktake results, which is pleasing in that it indicates that results were not being manipulated. The six monthly results will continue to be the evaluation method for determining the accuracy of the Council store and associated inventory.

Recommendation 14.

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

Summary of progress

The recommendation is being implemented as described in the report

Action taken to implement recommendation

Two random audits are conducted annually by officers from the finance section who are not involved with store operations. It is an unscheduled count of approximately 10 bins selected at random. In some instances the audit commences with the ledger and is followed by a count of the selected stock bin. On other occasions the count is conducted prior to accessing ledger information.

Supporting material

Email from finance section member (Carlos Alcaino) to Council's Finance Manager confirming stocktake outcomes (email dated 16 October 2013)

Evaluation of implementation (Progress update)

The random stocktakes to date have not identified any major discrepancies.

Recommendation 15.

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

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

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

Summary of progress

The recommendation is being implemented as described in the report.

Action taken to implement recommendation

Council's internal auditor, Grant Thornton Australia Ltd. completed two internal audits during 2013/14 in respect to:

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

The recommendations highlighted in these reports are now being implemented, with monitoring undertaken by Council's Internal Audit Committee.

Supporting material

- Internal Audit Final Report – Inventory Management
- Internal Audit Final Report – Procurement
- Internal Audit Committee – Sample Agenda

Evaluation of implementation (Progress update)

The completed actions are reported to the Internal Audit Committee.