



Liverpoolcitycouncil
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Our Ref: 049710.2015
Office Contact: 9821 9199
Contact: Deva Sivapragasam

3 March 2015

Dr Robert Waldersee
Executive Director Corruption Prevention
Independent Commission Against Corruption
GPO Box 500
SYDNEY NSW 2001

Dear Dr Waldersee

Re: Final Progress Report Operation Jarek Recommendations

I write in response to your request for a final progress report into the implementation of Operation Jarek recommendations.

Council has prepared a final progress report addressing the action taken to implement outstanding recommendations from our previous correspondence on 28 February 2014. A copy of council's responses to the recommendations and proposed actions are attached for your information and consideration.

Should you require any additional information please do not hesitate to contact Mr Deva Sivapragasam, Manager Internal Audit on 9821 9199.

Yours sincerely


Carl Wulff
Chief Executive Officer

24 Month Final Report

Implementation Plan - Operation Jarek

Liverpool City Council

Recommendation 1

That council's communicate to suppliers a clear set of supplier behaviour expectations and the associated consequences for non-compliance

Summary of response

The recommendation is implemented as described in the report.

Action implemented:

Council currently uses E-Tendering for contracts with an estimated value equal to or over \$50,000. The "Welcome Page" for Council's E-Tendering provides links to the following documents:

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

In order to capture all contracts, including those valued under \$50,000, the following actions were introduced:

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

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

Supporting material

- Doing Business with Liverpool City Council- A Guide for Consultants, Contractors and Suppliers.
- Council's Code of Conduct.
- The NSW Government Code of Practice for Procurement;
- Ethical Governance: Internal Reporting (Public Interests Disclosures) Policy

Proposed evaluation methods

The Procurement Policy issued in 2014 outlines clearly all process the vendors and contractors are to go through when dealing with Council and clearly illustrates the expectation of the Council in terms of employee behaviours.

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

Recommendation 2

That council develops a proactive and comprehensive supplier engagement framework.

Summary of response

The recommendation is implemented as described in the report.

Action proposed

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

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

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

Supporting material

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

Proposed evaluation methods

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

Recommendation 3

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

Summary of response

The recommendation is implemented as described in the report.

Action taken

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

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

An E-learning module on Council's Code of Conduct was developed by Council's Learning and Development Coordinator, which is available to all Council staff from May 2013 onwards. The learning module contains a specific section on expectations of behaviour in regard to gifts and benefits.

It also includes training on gifts and benefits to all new starters at Council.

Supporting Material

- Council's revised Ethical Governance: Gifts and Benefit Policy
- CEO's memo to Members of Council Staff on Gifts and Benefits (November 2013)
- Council's E-Learning module on Council's Code of Conduct

Proposed evaluation methods

Council's Ethical Governance: Gifts and Benefits Policy was reviewed in November 2014. The Council's Head of Audit & Risk also reviews the list annually as part of 30 June financial year end process.

Council is satisfied that measures taken in regard to staff training and annual review of its Gifts and Benefits Register is satisfactory and working well as intended.

Recommendation 4

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

Summary of response

The recommendation is implemented as described in the report.

Action proposed

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

Supporting material

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

Proposed evaluation methods

Council's Ethical Governance: Gifts and Benefits Policy was reviewed in November 2014. The Council's Head of Audit & Risk also reviews the list annually as part of 30 June financial year end process.

Council is satisfied that measures taken in regard to staff training and annual review of its Gifts and Benefits Register is satisfactory and working well as intended.

Recommendation 5

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

Summary of response

The recommendation is implemented as described in the report.

Action proposed

The disciplinary consequences of breaching Council's policy on gifts and benefits are now specifically referred to in clauses 4.31 and 4.32 of Council's Ethical Governance: Gifts and Benefit Policy and by Council's E-Learning Code of Conduct staff training. Council has also reviewed the E-tendering Portal to ensure that its brochure on "Doing business with Liverpool City Council" include specific reference to gifts and benefits, is made available to contractors, consultants, suppliers any relevant third parties.

Supporting material

- Council's revised Ethical Governance: Gifts and Benefit Policy
- Council's E-Learning module on Council's Code of Conduct
- Doing Business with Liverpool City Council.

Proposed evaluation methods

Council's Ethical Governance: Gifts and Benefits Policy was reviewed in November 2014. The Council's Head of Audit & Risk also reviews the list annually as part of 30 June financial year end process.

Council is satisfied that measures taken in regard to staff training and annual review of its Gifts and Benefits Register is satisfactory and working well as intended.

Recommendation 6

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

Summary of response

The recommendation is implemented as described in the report.

Action proposed

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

These identified areas were considered as part of Council's risk register and overall management of risks as part of the newly created Enterprise Risk Management (ERM) process. The Council developed and rolled out an Enterprise Risk Management framework focusing on the top 10 risks faced by Council from 01 January 2015. The framework is managed by Head of Audit & Risk and evaluated quarterly.

Council's revised Procurement Manual include "Relational selling" identified as a specific risk and training was provided for staff within the above units about "relational selling" tactics as well as training on all aspects of procurement. Council staff are also encouraged to identify any potential problems with individual suppliers and to discuss follow up action with their Manager or Director.

The reviewed Procurement Manual also articulate that where a Council officer is responsible for a purchase under a NSW Government contract (or through WSROC or Local Government Procurement), and where there is more than one supplier, the Council officer will need to justify why one supplier is preferred over any other suppliers for the same

contract and obtain their Manager or Director's approval. The Manual prescribes that personal meetings of Council representatives with suppliers include more than one member of staff and that the location of any interaction is in a public space.

All Council suppliers were given a copy of "Doing Business with Liverpool City Council: A Guide for Consultants, Contractors and Suppliers". This document is currently posted on Council's website.

Supporting material

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

Proposed evaluation methods

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

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

Recommendation 7

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

Summary of response

The recommendation is implemented as described in the report.

Action proposed

Council has created a process map for contracts of value \$50,000 or over, which is used to identify points of corruption risk.

The Council's updated Procurement manual pays special attention to details relating to procurement above \$50,000 and provides detail guidance on how to conclude contracts. Additionally, all expenses above \$150,000 are subject to an independent probity review which includes an issuance of an Audit Certificate by the Head of Audit & Risk thus minimising any associated risks. The Procurement Team Leader gets involved at the initial stage of all major expenditure and all discussions with suppliers and third parties are properly validated and recorded prior to any major spend.

Proposed evaluation methods

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

Recommendation 8

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

Summary of response

The recommendation is implemented as described in the report.

Action proposed

Council uses e-procurement for tenders and contracts over \$50,000.

Supporting material

Procurement Manual Procedures approved by Council.

Recommendation 9

Managers of stores and ensure they (councils) can generate a report showing the orders placed by any individual across all cost centre.

Summary of response

The recommendation is implemented as described in the report.

Action proposed

Council is currently preparing to undertake a full review of its stores function, operating at its Rose St Depot. The inventories carried at the Rose Street Depot are expected to shrink dramatically. The Council which is using the facility to service and maintain approximately 120 passenger cars for last several years had opted to change from 01 January 2015 to lease cars instead of own and operate cars. This change over will result in the store carrying very little inventories in the future.

Currently all inventory orders are raised by the Stores Officers, orders costed to a balance sheet (asset) account, and when store items are issued they are charged to the various cost accounts.

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

Supporting material

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

- Stock Movement Report Extended Details
- Various Cost Centre Reports

Proposed evaluation methods

Council reviewed the operation of its stores function based on input from the outdoor work teams, stores officers, Finance and Depot management employees. The review identified and improved management evaluation capacity to verify the effectiveness of stores operations.

The Council Internal Audit is also looking at the Store operations as part of the Council Internal Audit Plan 2015 to evaluate the effectiveness of controls in place and also to identify any process improvement opportunities.

Recommendation 10

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

Summary of response

The recommendation is implemented as described in the report.

Action proposed

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

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

There are detailed specific reports used to identify slow moving stores items and potential obsolete store items. This report is used to validate any inventory provisions carried.

Supporting material

Stores System Reconciliation Process

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

Inventory Pending Reconciliation Process

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

Proposed evaluation methods

The formal monthly reconciliation of the Stores sub ledger to the General Ledger control account is prepared by the Financial Accounting team and signed off by the Senior Financial Accountant. The annual stock take is part of the end of year working papers subject to review by Council's external auditor. Council Internal Audit also participates in the year-end stock take to provide

independent assurance over the process. We recorded an immaterial stock discrepancy for full year-end stock take completed for 30 June 2014.

Recommendation 11

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

Summary of response

The recommendation is implemented as described in the report.

Action Taken

Council performed a detailed review to assess the operational efficiency of the store operations at Rose Street Depot. Council Internal Audit is also presently performing a review as part of the Internal Audit Plan 2015.

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

We also assessed the Council's procurement process with regard to inventory ordering to propose changes to derive efficiencies.

Supporting material

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

Proposed evaluation methods

The Stores will carry a very limited level of inventories after the changeover from Council owned & operated motor vehicles to operating lease process. This process will be fully operational by end of April 2015. Subsequent to this only a small quantity of inventories will be carried at the store resulting in a significant reduction in risk.

Recommendation 12

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

Summary of response

The recommendation is implemented as described in the report.

Action Taken

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

The present location, layout of the existing building, and utilisation as storage area for other non-store items hampers the secure storage and movement of goods, and was included in the review of the store function. Currently all items are stored as securely as possible.

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

Finance Department in conjunction with Council Internal Audit perform annual stock take to provide independent assurance over the whole process.

Supporting material

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

Proposed evaluation methods

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

Action Taken

Immaterial stock losses were recorded for 30 June 2014 annual stock take.

Recommendation 13

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

Summary of response

The recommendation is implemented as described in the report.

Action Taken

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

validated by Council Internal Audit Team.

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

Supporting material

- Stocktake Processing (Non POS)
- Stocktake records
- Monthly reconciliations
- Working papers for the annual audited financial reports

Proposed evaluation methods

The most recent stock takes 2013 and 2014 were accurate and no material loss of inventories was recorded.

Recommendation 14

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

Summary of response

The recommendation is implemented as described in the report.

Action Taken

Council completed a risk assessment of all Council wide risks as part of developing an Enterprise Risk Management framework in 2014. As part of this review the store's operation was evaluated in detail. The average store balance and quantity of items held on hand is not considered to represent a material risk when compared to the dollar value of Councils operations, however, there are processing risks associated with the operation of the stores function.

Supporting material

Refer comments in recommendation 13.

Proposed evaluation methods

1. The reconciliation of store sub ledger to ledger control balances are completed on a regular and frequent basis independent from the stores.
2. The financial system is set up to ensure regular and frequent independent reconciliation of the Inventory Pending account.
3. The review performed by external auditor of store inventories as part of annual year-end audit provides reasonable assurance over store activities.

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 program.

Summary of response

The recommendation is implemented as described in the report.

Action proposed

Council adopts a well-defined annual internal audit plan to address significant risks that arise from Enterprise Risk Management process. Council's ERM frame work does not consider the inventories stored at the Rose Street Depot as a material risk, thus limited reviews are carried out at agreed intervals to monitor the depot operations.

Council revised the Fraud and Corruption Prevention Policy originally adopted in March 2008 and issued a revised version in late 2014. The plan adequately addresses all unethical behaviour by internal and external parties to detect and mitigate fraudulent or corrupt acts from occurring.

Supporting material

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

Proposed evaluation methods

Council's Audit & Risk Committee meets quarterly and provides independent oversight and monitoring of Council's audit processes and governance framework. The committee approves the internal audit plans, and provides a forum for discussion of areas worthy of audit attention including a discussion of key business risks from the ERM framework.