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**CONFIDENTIAL CORPORATE  
GOVERNANCE COMMITTEE MEETING**

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**CONFIDENTIAL MATTERS**

8.1	Examination (Attachments) .....	4
8.2	Independent Commissioner Against Corruption (ICAC) Evaluation Update .....	219

Released 26 May 2020

## 8.1 EXAMINATION

Contact Person: Mr Sam Green

### Why is this matter confidential?

Subject to an order pursuant to Section 90 (3) (j) of the Local Government Act 1999, this matter is confidential because Council is obligated under the Public Audit Act to ensure confidentiality of information until State Government are ready to release.

### A. COUNCIL/COMMITTEE TO MOVE MOTION TO GO INTO CONFIDENCE

No action – this motion passed in the open section.

### B. THE BUSINESS MATTER

## 8.1 EXAMINATION

**Responsible Executive Manager :** Mr Sam Green

**Report Author :** Mr Ninad Sinkar

**Delegated Authority :** Matters which have been delegated to staff but they have decided not to exercise their delegation.

**Attachments :**

1. Audit Scope
2. First Draft report version 1
3. Feedback based on report version 1
4. Detailed feedback to Auditor General
5. Second CEO letter to AG
6. Reviewed feedback
7. Additional credit card report comments
8. Confidential resolution CGC
9. Final draft report by AG- Credit card audit
10. Draft Council response to Auditor General

## PURPOSE

To provide the Committee the final draft of the Credit Card Audit report provided by the Auditor General and written management response prepared by the CEO in the final stages of the draft report officially being issued to the Council.

## STAFF RECOMMENDATION

That the Committee support the management response (Attachment 10) to be submitted to the Council for endorsement and submission to the Auditor General.

## EXECUTIVE SUMMARY

In May 2018 Council was contacted by the Auditor General and advised of the intention to undertake an examination to determine whether the council's credit cards have been used and managed efficiently and economically. The audit process has taken an unreasonably long time. Regular reporting on the progress has been brought to the Committee as verbal updates and on one occasion via a written report associated with a previous draft report.

Recently, Council has been engaged in a two-way process with the Auditor-General with the overall purpose of finalising the draft audit report so it can be formally issued to Council to enable Council to provide a formal response to the report.

This report and associated response will be combined with the Auditor-General's reports from the other (two) participating councils to create a summarised report for the Auditor-General to present to parliament.

Feedback provided to date on the report has focussed on ensuring an accurate, clearly presented, and balanced report. Input from the Committee and ultimately Council will be critical.

### 1. BACKGROUND

On 25 June 2019, the Auditor General's team advised they had completed their examination of the Council's credit card use and provided a draft of their report for feedback from the administration. The provision of the report was accompanied by a request to meet. The initial feedback was requested around the accuracy of data in the report.

Staff have been corresponding with the Auditor-General's team in an effort to ensure the report was accurate, clearly presented, and balanced before being issued to Council in a final form. Feedback to the Auditor General included a face to face meeting, requested by Council, where the Mayor, CEO, Acting General Manager- Strategy and Corporate and Internal Auditor were present.

Part of the discussions have involved agreeing a timeframe, for the provision of formal feedback, with the Auditor-General.

### 2. RELEVANCE TO STRATEGIC PLAN

#### 1: Smart Service Delivery Program

Outcome 1.2 Improved service delivery

City of Playford is committed to delivering efficient services and this includes the efficient use and management of credit cards and associated expenditure.

This audit was initiated by the Auditor-General under the provisions of the Public Audit Act and would be expected to promote efficient and effective service delivery.

### 3. PUBLIC CONSULTATION

The requirement, from the Auditor General, to maintain confidentiality has prevented any form of public consultation.

#### 4. DISCUSSION

- 4.1** In May 2018 Council was contacted by the Auditor General and advised of the intention to undertake an examination to determine whether the council's credit cards have been used and managed efficiently and economically. (Attachment 1 – Audit Scope)
- 4.2** The process of the audit has taken well over a year from the point of initiation, with significant amounts of information being provided to the Auditor-General's audit team.
- 4.3** On 25 June 2019, the principal audit manager forwarded a report with the results of the examination upon notifying the CEO that the examination has been completed. (Attachment 2 – First Draft Report Version 1)
- 4.4** Upon issuing the report the Principal Audit Manager and the Assistant Auditor-General requested a meeting to discuss the examination results. The purpose of the meeting was to discuss findings and recommendations, any matters requiring clarification and highlight any factual errors in the draft report. The intention was for the report to be finalised subsequent to this meeting and then for it to be sent to Council requesting a formal written response to the findings and recommendations.
- 4.5** The feedback provided to the team in this meeting, held on 1 July 2019 was to highlight some factual and contextual errors with the report. In addition, the concern was raised around deviation from scope and the unbalanced nature of the report.
- 4.6** Council's feedback on the draft was documented and provided in a response on the 23<sup>rd</sup> of July. (Attachment 3 – Feedback based on report Version 1). This feedback was provided with a summarising letter stating Council's position on the report. (Attachment 3 – First response letter to Auditor General) (Attachment 4- Detailed feedback to Auditor General )
- 4.7** During this time legal advice was sought around the issue raised regarding appropriate approval of expenditure. This was provided to the Auditor-General at their request as a sign of good faith. Council's legal privilege was maintained.
- 4.8** A second meeting was held on the 5<sup>th</sup> August to discuss the feedback in detail and consider amendments to the results report. In addition to this meeting the Auditor-General officially responded to the letter from the CEO.
- 4.9** The result of this second meeting was an amended report from the Auditor General. This report was the attempt to take on the feedback provided to the audit team.
- 4.10** Unfortunately, the amended report did little to take on the feedback provided and retained the errors highlighted. As a result, further feedback was provided in the form of:
- 4.10.1** Another letter from CEO to the Auditor-General expressing general dissatisfaction and concern around the intent of the report and the missed opportunity for a positive impact for local government (Attachment 5 – Second CEO letter to AG)
- 4.10.2** Review of initial feedback provided and where the feedback had been addressed or overlooked (Attachment 6 – Reviewed Feedback)

4.10.3 Additional feedback based on the amended report, including a review by Council's Internal Auditor (Attachment 7 – Additional Feedback)

- 4.11** The amended draft report was provided to the Corporate Governance Committee for information and comments on 27 August 2019. The CGC passed a resolution and recommended that the Internal Auditor rewrite the report and provide a copy to the Management by 1 October 2019. (Attachment 8- Confidential resolution CGC)
- 4.12** A re-written report was provided to the Auditor General on 3 October 2019, for consideration and discussion.
- 4.13** The Mayor, CEO, Acting General Manager- Strategy and Corporate and the Internal Auditor met with the Auditor General and his team on 8 October 2019 to discuss the audit report and to further highlight the concerns regarding the factual accuracy of some of the findings and recommendations in the report.
- 4.14** Based on the discussion and feedback provided in the meeting on 8 October 2019, the Auditor General provided an updated report and requested formal feedback from the Council by 5 November 2019. (Attachment 9- Final draft report by Auditor General- Credit card audit). Staff advised that due to meeting availability, a final response would be provided by 6 November 2019.
- 4.15** The CEO, Acting General Manager – Strategy and Corporate and the Internal Auditor have prepared a formal response in the form of a re-written report and agreed management actions. (Attachment 10- Formal response to the Credit Card report).

## 5. OPTIONS

### Recommendation

That the Committee support the management response (Attachment 10) to be submitted to the Council for endorsement and submission to the Auditor General.

### Option 2

The Committee support the management response (attachment 10) to be submitted to the Council for endorsement and submission to the Auditor General, with the following amendments:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

## **6. ANALYSIS OF OPTIONS**

### **6.1 Recommendation Analysis**

#### 6.1.1 Analysis & Implications of the Recommendation

The staff has classified the audit findings in the audit report into two categories:

- 1) Performance improvement opportunities – These audit observations are supported by audit evidence and based on appropriate verification processes carried out by the Auditor General.
- 2) General observations – These are general observations by the Auditor General and not supported by audit evidence. They are considered as general opinion of the Auditor General.

The CEO, Acting General Manager – Strategy and Corporate and the Internal Auditor have reviewed the findings and have agreed action plans to address the recommendations, wherever applicable.

#### 6.1.2 Financial Implications

There are no financial or resource implications.

### **6.2 Option 2 Analysis**

#### 6.2.1 Analysis & Implications of Option 2

Option 2 allows the Committee to propose amendments to the management response. Any proposed amendments will be relayed to the Council for potential inclusion, prior to the response being submitted to the Auditor-General.

#### 6.2.2 Financial Implications

The financial implications of any proposed changes to the response are dependent on the amendments made.

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**Government of South Australia**  
**Auditor-General's Department**

Our ref: I18/800

11 May 2018

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Dear Mayor Docherty

**Examination of credit card use and management in Local Government****Introduction**

On 17 January 2018 my Assistant Auditor-General (Specialist Reviews and Analytics) forwarded a letter to the South Australian councils requesting high-level information on the council's credit card arrangements to assist our planning process. We have reviewed the information and selected several councils to examine.

The purpose of this letter is to inform the City of Playford (the Council) that I have determined to conduct an examination of the Council's credit card use and management pursuant to section 32(1)(a) of the *Public Finance and Audit Act 1987* (PFAA). Enclosed is a copy of section 32 of the PFAA for your reference.

This letter details the examination scope, audit responsibility and reporting process.

The Council's Chief Executive Officer (CEO), Dr Mal Hemmerling, Deputy Chief Executive Officer, Mr Sam Green and Senior Manager Finance, Ms Grace Pelle met with my audit representatives Mr Andrew Corrigan, Ms Iolanda Telford and Ms Kelsey McNaughton on 8 May 2018 to discuss the abovementioned matters.

**Examination scope**

Credit cards provide an efficient and convenient method to purchase and pay for high volume and low value goods and services. This purchase/pay method is efficient as it can save time and can reduce associated transaction and processing costs.



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While credit cards can be an efficient purchase/pay method, it comes with increased risk of unauthorised transactions and misuse and waste of public money. It is essential that councils have appropriate policies and controls to reduce these risks. If these risks are not managed effectively, it will potentially expose a council to probity issues and reputational harm.

The objective of the examination is to determine whether the council's credit cards have been used and managed efficiently and economically. The examination will cover the period from 1 July 2016 to 30 April 2018 and consider the:

- Council's credit card policy and procedures, including procurement and relevant expenditure policies
- Council's controls over credit card transactions to ensure expenditure was authorised and proper use of public money
- use of credit cards to promote and support its efficiency.

The examination will involve assessing a sample of transactions to determine whether the expenditure was proper use of public money. Our assessment will be based on the following principles:

- the business purpose is justified
- preserve impartiality
- are moderate and conservative, having regard to the circumstances
- are made transparently
- are appropriate in all respects (for example compliance with Council policy; other good practices).

We discussed these principles with the CEO, Deputy CEO and Senior Manager Finance on 8 May 2018 who acknowledged that the principles were reasonable. The CEO also confirmed that the key council contact to assist our examination is the Senior Manager Finance.

**Audit responsibility**

The examination will involve appropriate consultation with the relevant Council staff and review of documentation.

In order for an efficient and effective examination, the Council will need to provide timely access to personnel and information to assist the process. It is proposed the examination will be conducted over the period May to August 2018.

The Auditor-General's powers to obtain information/documentation are specified under sections 30 and 34 of the PFAA. The information/documentation obtained during the conduct of the examination is used for the sole purpose of performing and reporting the examination and will remain confidential.



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### **Reporting process**

Section 32 of the PFAA requires the Auditor-General to prepare a report on the results of the examination and provide a copy of the report to the Council and the Parliament. Any communication on the examination results will be subject to the natural justice as outlined below.

At the completion of the examination, we will:

- meet with the Council's key personnel to discuss the examination results
- provide the Council a copy of the draft report on the examination results, including details of any findings and recommendations. At this stage, we will request the Council to formally respond in writing to the findings and recommendations
- provide the Council a copy of the final draft report for review and comment prior to finalising the report to Parliament. The final draft report will include the Council's response.

To respect the reporting provisions in the PFAA, confidentiality must be maintained throughout the examination on all communications (including email correspondence) until the reporting responsibility to Parliament is completed. The President of the Legislative Council and the Speaker of the House of Assembly must, not later than the first sitting day after receiving the final report from the Auditor-General, table it before their respective Houses.

Until such time, I would appreciate that all communications regarding the examination be treated as confidential and not be made publicly available or published (such as in the Council's meeting minutes) to respect the concurrent and mutual reporting obligations to Council and the Parliament.

A copy of the final report will be provided to the Council and made available on our website at [www.audit.sa.gov.au](http://www.audit.sa.gov.au) from the date it is ordered by Parliament to be published.

### **Other matters**

Our internal cost of conducting this examination and preparing the report to Parliament will be funded by my Department. Should there be a justifiable reason for seeking some cost recovery I will formally communicate this position and the reason(s) for the changed position.

The senior authorised officers responsible for the conduct of the examination are:

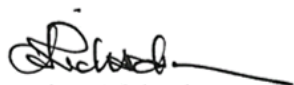
- Mr Andrew Corrigan, Assistant Auditor-General (Specialist Reviews and Analytics)
- Ms Iolanda Telford, Principal Audit Manager (Local Government)
- Ms Kelsey McNaughton, Deputy Audit Manager (Local Government).

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The officers can be contacted on 8226 9640 or email [TeamLG@audit.sa.gov.au](mailto:TeamLG@audit.sa.gov.au).

Thank you for your assistance in this matter.

Yours sincerely



Andrew Richardson

**Auditor-General**

cc: Dr M Hemmerling, Chief Executive Officer

enc

Released 26 May 2020

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*Attachment: Extract of section 32 of the Public Finance and Audit Act 1987*

Division 2—Audit of public and other accounts

32—Examination of publicly funded bodies and projects and local government indemnity schemes

(1) The Auditor-General may—

- (a) examine the accounts of a publicly funded body and the efficiency and economy of its activities; or
- (b) examine accounts relating to a public funded project and the efficiency and cost-effectiveness of the project; or
- (c) examine accounts relating to a local government indemnity scheme and the efficiency and cost-effectiveness of the scheme.

(1a) An examination may be made under this section even though the body, project or scheme to which the examination relates has ceased to exist.

(1b) The Auditor-General must conduct an examination under subsection (1) if requested to do so by the Treasurer or the Independent Commissioner Against Corruption.

(2) After making an examination under subsection (1), the Auditor-General must prepare a report setting out the results of the examination.

(3) The Auditor-General must deliver copies of the report to—

- (a) any publicly funded body concerned in the examination; and
- (b) if the examination was requested by the Treasurer—the Treasurer; and
- (c) if the examination was requested by the Independent Commissioner Against Corruption—the Independent Commissioner Against Corruption; and
- (d) the President of the Legislative Council and the Speaker of the House of Assembly.

## Contents

<b>1</b>	<b>Executive summary</b>	<b>4</b>
<b>2</b>	<b>Background</b>	<b>4</b>
2.1	Playford Council overview	4
2.2	Credit card overview	5
2.2.1	Benefits and costs of credit card use	5
2.2.2	Relevant law	5
2.2.3	Credit card use and expenditure	6
<b>3</b>	<b>Audit mandate, objective and scope</b>	<b>9</b>
3.1	Our mandate	9
3.2	Our objective	9
3.3	What we examined and how	9
3.4	What we did not review	11
<b>4</b>	<b>Credit card policy and procedures</b>	<b>12</b>
4.1	Introduction	12
4.1.1	Relevant law	12
4.2	Examination approach	12
4.3	Findings	13
4.3.1	Credit card policy and procedures not reviewed on time	13
4.3.2	Revised credit card policy and procedures could be further improved	13
<b>5</b>	<b>Specific controls over credit card expenditure</b>	<b>15</b>
5.1	Introduction	15
5.1.1	Relevant law	15
5.2	Examination approach	15
5.3	Findings	16
5.3.1	CEO's sub-delegation to expend funds was deficient	16
5.3.2	Deficiencies in the independent review of credit card expenditure	17
5.3.3	Independent review of executives' transactions could be improved	19
5.3.4	Business purpose was not clearly justified at the time the expenditure was incurred <sup>20</sup>	
5.3.5	Not all expenses supported by adequate or correct records	21
5.3.6	The expenditure incurred was not always necessary and/or appropriate use of public money	22
<b>6</b>	<b>Credit card payments – business expenses</b>	<b>24</b>

6.1	Introduction	24
6.2	Findings	24
6.2.1	Insufficient policy guidance for business expenses	24
6.2.2	Travel expenses were not supported by adequate accounting records	26
6.2.3	Entertainment and hospitality expenses not always proper use of public money	27
6.2.4	Gifts to staff and contractors not always proper use of public money	28
<b>7</b>	<b>Credit card payments - reward and recognition expenses</b>	<b>30</b>
7.1	Introduction	30
7.1.1	Relevant law	30
7.1.2	Council CEO's policy	30
7.1.3	Relevant credit card expenditure	31
7.2	Examination approach	31
7.3	Findings	33
7.3.1	Policy intent is not clearly aligned with business purpose	34
7.3.2	Gift rewards not considered necessary or appropriate	36
7.3.3	The value of the loyalty of service rewards was considered unnecessary	37
<b>8</b>	<b>Credit card payments – elected members' benefits</b>	<b>38</b>
8.1	Introduction	38
8.1.1	Relevant law	38
8.1.2	Council policy	39
8.1.3	Relevant credit card expenditure	39
8.2	Findings	40
8.2.1	Expenditure for Council members' lunch and gifts not proper use of public money	40
<b>9</b>	<b>Credit card use supports efficiency</b>	<b>42</b>
9.1	Introduction	42
9.2	Audit approach	42
9.3	Findings	42
9.3.1	Improvements in analysis of credit card use and expenditure	42
<b>1</b>	<b>Example 1 Hospitality</b>	<b>52</b>
1.1	Transaction details	52
1.2	Transaction reconciliation records	52
1.3	Discussions with Council staff	52
1.4	What we found	53
1.5	What we concluded	54

<b>2</b>	<b>Example 2 Gift for staff</b>	<b>55</b>
2.1	Transaction details	55
2.2	Transaction reconciliation records	55
2.4	What we found	56
2.5	What we concluded	56
<b>3</b>	<b>Example 3 Conference fees</b>	<b>58</b>
3.1	Transaction details	58
3.2	Transaction reconciliation records	58
3.3	Discussions with Council staff	58
3.4	What we found	58
3.5	What we concluded	59



# 1 Executive summary

**\*\* This section will be completed after receiving a formal response from the Council**

## 2 Background

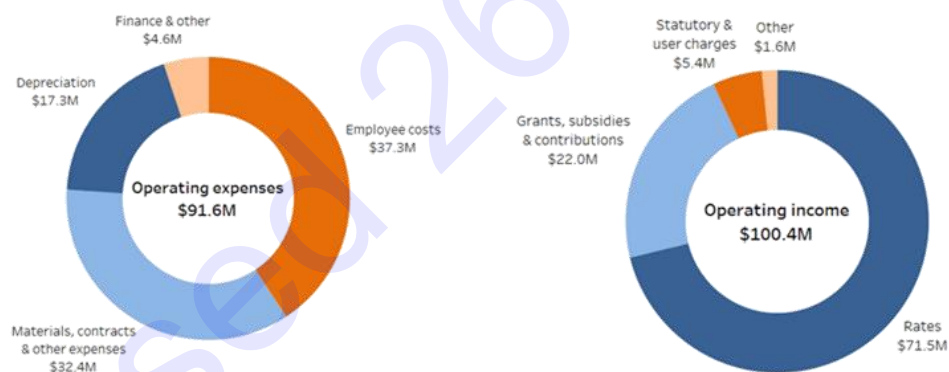
### 2.1 Playford Council overview

The City of Playford (the Council) is responsible for managing its local area of 345 km<sup>2</sup> with a population of 92,000 and is a fast-growing outer metropolitan area.<sup>1</sup> It provides a range of services, facilities and programs to its community which include:

- local roads, footpaths and drainage
- waste collection and recycling management
- library and information services
- recreation, sporting and cultural activities.

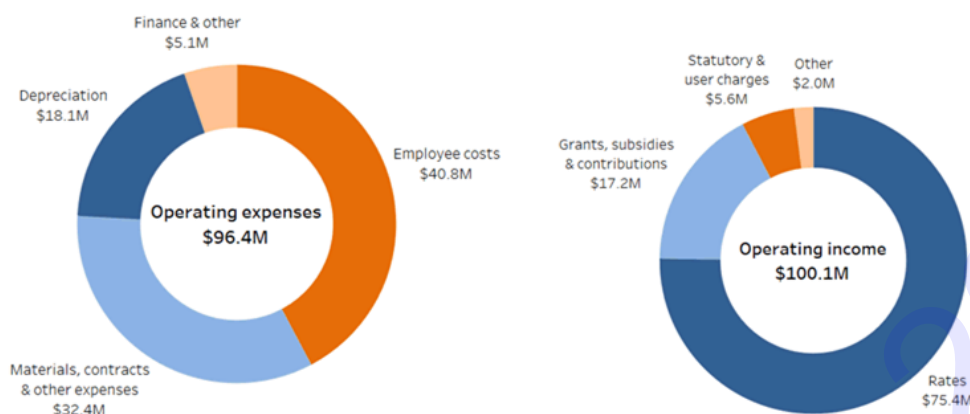
The Council reported operating surpluses of \$8.8 million and \$3.7 million in 2016-17 and 2017-18, respectively. The figures 1 and 2 below show the Council's sources of income and expenditure incurred to deliver services to its community over the past two financial years.

**Figure 1: Sources of income and expenditure incurred in 2016-17 <sup>2</sup>**



<sup>1</sup> The Council's State of City Report 2018, November 2018

<sup>2</sup> Data sourced from the Council's audited financial statements for the year ending 30 June 2018

**Figure 2: Sources of income and expenditure incurred in 2017-18 <sup>3</sup>**

## 2.2 Credit card overview

### 2.2.1 Benefits and costs of credit card use

A credit card is an efficient and convenient tool to use when spending public money for high volume and low value goods and services. Credit card use can also increase the risk of unauthorised transactions (eg intentional/unintentional use for personal items, cash withdrawals) and misuse and waste of public money. These risks must be managed effectively, for a council to avoid probity issues, reputational harm and loss of public trust that the council is acting responsibly and for the public benefit.

The loss in public trust may have a detrimental impact on the council's ability to perform its functions efficiently and effectively. It may, for example:

- compromise the council's ability to attract new businesses to the area
- involve significant cost to restore and sustain public trust
- have a negative impact on the council's culture and staff morale.

It is imperative a council, like other public sector entities, can always demonstrate proper and prudent expenditure behaviour when spending public money that meets legislative requirements, withstands Parliamentary and public scrutiny and maintain public trust in the council.

The proper use of public money encompasses the broad principles of lawfulness, integrity, transparency, accountability and acting for the public benefit.

### 2.2.2 Relevant law

<sup>3</sup> Data sourced from the Council's audited financial statements for the year ending 30 June 2018



The LG Act provides a framework which promotes and supports the principles of proper use of public money where:

- In performing its role and functions, a council must observe principles provided in section 8 of the LG Act which include, to:
  - seek to ensure that its resources are used fairly, effectively and efficiently
  - achieve and maintain standards of good public administration.
- Section 49 of the LG Act requires a council to maintain procurement policies, practices and procedures to:
  - obtain value in the expenditure of public money
  - provide for ethical and fair treatment of participants
  - ensure probity, accountability and transparency in procurement operations.
- Section 124 of the LG Act requires a council to keep accounting records that correctly and adequately record and explain its revenues, expenses, assets and liabilities.
- Section 137 of the LG Act allows the council to spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties.
- Section 44 of the LG Act enables a council to delegate its powers or functions to a council employee. A delegation if made to a council's CEO authorises the sub-delegation of the delegated power. A council is required to maintain a separate record of all delegations under section 44 of the LG Act and review them at least once every financial year.

There are no specific legislative requirements or current sector-wide guidance which provide for the use of credit cards in the South Australian local government sector. Consequently, it is important councils have expenditure policies and controls which provide adequate direction and guidance to ensure the council can clearly demonstrate proper use of public money.

### 2.2.3 Credit card use and expenditure

The following shows a summary of the Council's credit card use and expenditure for the examination period (1 July 2016 – 30 April 2018).



88 cardholders



11,555 transactions



\$1.7 million charged on credit cards

The total amount of \$1.7 million charged on credit cards, over a 22-month period, is relatively small when compared to the annual amount spent on material, contracts and other expenses of \$32 million per year.

However, recent events in the South Australian local government sector has shown that what public money is spent on (ie nature of the expenditure) alone is enough to increase the public's perception of improper expenditure. As an example, the City of Onkaparinga (Onkaparinga Council) was recently the subject of significant public criticism for some of its expenditure behaviours.

There is an increased public sensitivity where the expenditure may

- create a perception that the staff member or council member received a private benefit(s) in addition to the business benefit to the council
- be considered unusual for the council's purpose or function
- be considered to provide no benefit to the public.

The following expenditure categories are commonly considered more sensitive than other types of expenditure like training and materials:

- travel and accommodation
- entertainment and hospitality
- gifts
- staff support, reward and recognition.

Figures 3 and 4 shows the Council's main credit card expenditure categories over the period examined.

Figure 3: Non- sensitive expenditure

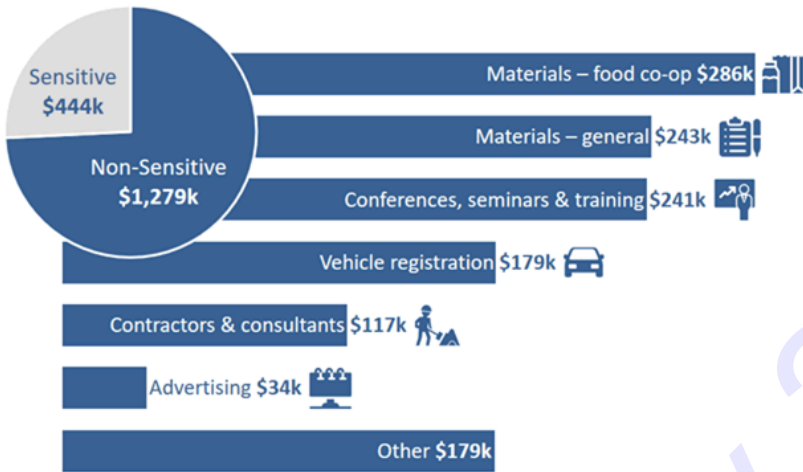


Figure 4: Sensitive expenditure



Source: data obtained by the Council and classified based on the expense description as determined by the relevant cardholder. We did not audit the accuracy of these descriptions.

Further, while the individual transaction may be small in value and for business purpose, the total amount spent on any expenditure category may also be viewed by the public to be improper and/or inefficient use of public money (where they consider it extravagant and/or wasteful).

### 3 Audit mandate, objective and scope

#### 3.1 Our mandate

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The Auditor-General conducted this examination under section 32(1)(a) of the *Public Finance and Audit Act 1987* (PFAA). This section allows the Auditor-General to examine the accounts of a publicly funded body and the efficiency, economy and cost-effectiveness of its activities.<sup>4</sup>

The Council is a publicly funded body under section 4 of the PFAA, which defines such a body to include a council constituted under the LG Act.

#### 3.2 Our objective

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The examination objective was to determine whether the Council's credit cards were used and managed efficiently and economically.

#### 3.3 What we examined and how

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We examined the Council's:

- policies and procedures for the use and management of credit cards
- controls over credit card expenditure to ensure it was authorised and achieved the proper use of public money. This also included a review of policies which governed relevant expenses.
- credit cards were issued and used to promote and support its efficiency.

We reviewed 30 credit card transactions with a total value of \$45,505 and across the sensitive expenditure categories outlined in section 2.2.3. These transactions were selected based on their description, expenditure type or amount recorded in the Council's credit card system.

For the purpose of this examination, we selected transactions based on their sensitive nature and potential risk of improper use of public money. The transactions we tested helped us to identify instances of non-compliance with council policy; gaps in council policy; and expenditure which was not consistent with the proper use of public money. Refer to appendix 2 for a list of the credit card transactions reviewed.

To assess whether credit card expenditure was proper use of public money we considered established standards of proper and prudent expenditure practice and behaviour, including:

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<sup>4</sup>The *Public Finance and Audit (Miscellaneous) Amendment Act 2018* came into operation on 13 September 2018 which amended section 32 of the PFAA to replace cost-effectiveness with effectiveness.

- the requirements of the LG Act
- Council policy
- generally accepted standards for proper and prudent expenditure practice and behaviour.

Proper use of public money encompasses the broad principles of lawfulness, integrity, transparency, accountability and acting for the public benefit. For the purposes of this examination we assessed a sample of the Council's credit card transaction records against the following expenditure principles to determine whether the Council had demonstrated proper use of public money:

- the **business purpose**<sup>5</sup> of the expenditure was clearly justified at the time the expenditure was incurred
- it was **necessary** for the Council to incur the cost in performing its functions and that it achieved value for money
- the nature of the expenditure was **appropriate** for its intended purpose
- the expenditure decision was made **transparently** where the transaction record was correct, adequate and explained the expense
- the expenditure was incurred in accordance with relevant Council **policy** and was **authorised**. The approval of sensitive expenditure should be given before the expenditure is incurred, where practical, and the expenditure principles have been met.

Figure 5 Expenditure principles



In our view, these expenditure principles represent good practice for entities spending public money, like councils, and key aspects of the LG Act. We would expect any public entity to embed them in their daily operations and decision-making processes.

<sup>5</sup> Business purpose is where the expense is incurred for the Council to meet its objectives, deliver services to its community, spent within an approved budget and provides a public benefit.



We discussed the expenditure principles with the Council's CEO at the commencement of the examination who acknowledged that they were reasonable.

The examination included a detailed review of documentation and discussions with relevant Council staff.

The examination covered the period from 1 July 2016 to 30 April 2018.

### 3.4 What we did not review

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We did not:

- examine the effectiveness of all the Council's controls over credit card transactions. The examination involved testing the effectiveness of specific controls to the extent it meets the examination sub-objectives
- confirm that the intended business purpose of the credit card expenditure was fulfilled
- examine the expenditure transactions which were processed through the Council's accounts payable system
- examine the budget preparation process to determine whether money was expended within an approved budget. Our examination was limited to confirming that the expenditure was included in the Council's budget
- examine the Council's compliance with tax reporting requirements, such as GST and FBT.

## 4 Credit card policy and procedures

### 4.1 Introduction

Policies and procedures are important for maintaining good governance and effective practices. They are important because they, for example:

- guide staff to make appropriate expenditure decisions and overcome problems efficiently
- provide instruction on the expected behaviours in undertaking council activity to ensure consistent practices across the council and without constant management involvement
- allow management to better control events in advance and reduce the risk of costly mistakes and/or inappropriate expenditure.

Further commentary on the importance of policies and procedures is provided in our report on the examination of governance in local government.<sup>6</sup>

#### 4.1.1 Relevant law

Section 49 of the LG Act requires a council to maintain procurement policies, practices and procedures to:

- obtain value in the expenditure of public money; and
- provide for ethical and fair treatment of participants; and
- ensure probity, accountability and transparency in procurement operations.

The Council's CEO has established an administrative policy for the use and management of credit cards. This policy is separate from the Council's procurement policy, a regulatory policy, which is approved by the elected body.

### 4.2 Examination approach

We examined the Council's credit card policies and procedures dated February 2015. These were:

- current at the time of conducting the examination
- applied during the period examined (ie 1 July 2016 – 30 April 2018).

We assessed these policies and procedures to determine whether they:

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<sup>6</sup> Report of the Auditor-General - Examination of governance in local government: February 2017, page 14

- were current and regularly reviewed
- considered key elements of credit card use and management activities. These activities include issuing cards, cardholder's responsibilities, monitoring and review of credit card expenditure
- provided guidance on expected expenditure behaviours.

We identified areas the credit card policies and procedures could be improved. The Council adopted a revised credit card policy and guideline, dated 1 October 2018, before we had communicated our examination findings.

In completing the examination, we reviewed the revised policy and guideline only to determine whether the improvement areas we had initially identified had been addressed.

We did not examine the Council's policy framework or any other policies which are not referred to in this Report.

### 4.3 Findings

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#### 4.3.1 Credit card policy and procedures not reviewed on time

##### Recommendation

The Council review policies and procedures regularly and by its expected due date.

A policy and the relevant procedures/guidelines be reviewed at the same time.

##### Finding

The Council's credit card policies and procedures, dated February 2015, record a next review date of February 2017 and February 2018, respectively. The review of these policies and procedures were overdue at the time we started the examination in May 2018. We also noted that there is a difference of a year between the review dates of the policy and procedure. As mentioned above, the Council adopted a revised policy and procedure in October 2018.

It is our view that when policies are reviewed, the relevant procedures/guidelines be reviewed at the same time to ensure practices and documented procedures are consistent with and support policy requirements.

#### 4.3.2 Revised credit card policy and procedures could be further improved

##### Recommendation



The Council consider and update its credit card policy and guidelines for the matters raised below and the recommendations made in sections 5.3.2 to 5.3.6.

## Finding

The credit card policy applies to all Council employees who have a Council credit card and who are involved in the management and governance of the credit card facility.

We noted that the revised credit card policy and procedures provide more direction and guidance on:

- monitoring, reporting and escalating breaches with policy
- the manager's responsibility when independently reviewing credit card transactions
- tax invoice attributes and the cardholders are required to get another copy where the original is lost
- recording the transaction details and purpose.

The revised credit card policy and procedures could be further improved by including:

- expenditure principles the cardholder is required to apply, and clearly evidence, to ensure proper use of public money
- a definition of business purpose
- a requirement for the cardholder to record, on the reconciliation, the business purpose of sensitive expenditure transactions
- a requirement that the independent review of the transaction be undertaken by a person who did not benefit or perceived to benefit from the expenditure
- the purpose of approvals. For example, the direct manager approves the reconciliation, however it is not clear what the manager is to do before giving an approval
- a specific timeframe for completing the reconciliations. The revised guideline requires reconciliations to be completed by the due date but does not specify a date or timeframe. We found that overall the reconciliations were completed and reviewed within 30 days from the transaction date
- credit card reconciliations are required to be completed prior to termination of employment.

## 5 Specific controls over credit card expenditure

### 5.1 Introduction

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#### 5.1.1 Relevant law

Section 125 of the LG Act requires a council to implement and maintain appropriate policies, practices and procedures of internal control to:

- assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives
- ensure adherence to management policies
- safeguard the council's assets
- secure the accuracy and reliability of council records.

Section 124 of the LG Act requires a council to keep accounting records that correctly and adequately record and explain its revenues, expenses, assets and liabilities.

Section 137 of the LG Act allows the council to spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties.

Section 44 of the LG Act enables a council to delegate its powers or functions to a council employee. A delegation made to a council's CEO may be sub-delegated by the CEO. A council is required to maintain a separate record of all delegations under section 44 of the LG Act and review them at least once every financial year.

Section 126 of the LG Act provides the functions of a council's audit committee which includes

*... reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.*

### 5.2 Examination approach

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We assessed whether the Council had implemented specific controls over credit card expenditure to ensure it was authorised and enabled the proper use of public money. Our examination focused on the following controls.

- cardholders had financial authority to spend money consistent with the Council's approved instrument delegations of authority
- cardholders reconciled the expenditure to documents which substantiated the purchase and were performed on time

- credit card reconciliations and transactions were independently reviewed
- correct and adequate records were maintained to explain the expenditure and demonstrate proper use of money.

We assessed 30 credit card transactions against the following expenditure principles to determine whether the Council had demonstrated proper use of public money.

We did this by reviewing the Council's records which supported the expenditure to determine whether:

- the **business purpose** of the expenditure was clearly justified at the time the expenditure was incurred
- it was **necessary** for the Council to incur the cost in performing its functions and that it achieved value for money
- the nature of the expenditure was **appropriate** for its intended purpose
- the expenditure decision was made **transparently** where the transaction record was correct, adequate and explained the expense
- the expenditure was incurred in accordance with relevant Council **policy** and was **authorised**. The approval of sensitive expenditure should be given before the expenditure is incurred, where practical, and the expenditure principles have been met.

Refer to appendix 2 for the credit card transactions reviewed and summary of our assessment against the expenditure principles.

We sought to review any policies which covered specific expense types as part of testing the selected credit card transactions.

We also reviewed the Council's process in identifying instances of misuse to ensure they were resolved in accordance with the Council's policy and relevant legislative requirements.

## 5.3 Findings

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### 5.3.1 CEO's sub-delegation to expend funds was deficient

#### Recommendation

The Council's instrument of delegations should be a complete record of all delegations.

The CEO's sub-delegation in the instrument of delegations should prescribe the specific amount limits assigned to positions. The Limit of Authority Schedule be included in the instrument of delegations as an appendix.

#### Finding

We found that the 2016-17 and 2017-18 instrument of delegations, which applied during the period examined, records the Council delegated the expenditure of funds, within the

approved annual budget, to the CEO. The CEO sub-delegated this authority, subject to conditions and limitation, to the:

- Senior manager finance
- Deputy CEO
- Manager finance and accounting.

The conditions and limitation specified in the instrument of sub-delegations refers to a separate Limit of Authority Schedule maintained by finance. We found that this schedule:

- does not form part of the instrument of sub-delegations
- provides a list of authority limits but does not evidence the CEO's approval
- could be changed without obtaining the CEO's approval.

The Council staff were unable to provide a copy of the CEO's written approval of the sub-delegation to the council employees to expend funds.

As a result of this deficiency in the delegation process, we concluded that the expenditure incurred, during the period examined, was unlawful because it was not authorised in accordance with the LG Act.

The LGASA provides guidance to the local government sector on the delegations framework.<sup>7</sup> The following are some important points for councils to consider

*Both the wording of the resolution and the instrument of delegation itself are important. It is the resolution which makes the delegations. It is the instrument which sets out the scope of the delegation.*

*A sub-delegation needs to be made in writing and it is not sufficient to list the identity of subdelegates in a column on a copy of the instrument of head delegation.*

*If the delegations are not done properly, the enforceability of decisions and actions taken may be compromised and there may be legal and administrative problems for the council.*

As provided in our report on the examination of governance in local government<sup>8</sup>, delegations need to be made in accordance with the LG Act to reduce the risk of unauthorised transactions. The instrument of delegations should be a complete and accurate record of the authority approved by a council and sub-delegate to ensure transactions are lawful and for efficient and effective decision-making when spending public money.

### 5.3.2 Deficiencies in the independent review of credit card expenditure

<sup>7</sup> LGASA, 'Delegations' viewed 8 May 2019, <<http://www.lga.sa.gov.au/page.aspx?u=6676>>

<sup>8</sup> Report of the Auditor-General – Examination of governance in local government: February 2017, page 18



## Recommendation

The Council reinforce to staff the importance of the independent reviewer's responsibility.

The Council perform an independent review of a sample of all credit card transactions to ensure the independent review is operating effectively. The transactions may be selected randomly or target high-risk areas based on an analysis of credit card data maintained in the Council's credit card facility and for expenditure where the Council has implemented new/revised policies.

## Finding

The independent review of credit card transactions is a strong control to detect credit card misuse and improper use of public money. This review is effective where the reviewer can exercise independent judgement. This means the reviewer is a person who:

- is not the cardholder
- is in a role senior to the cardholder so they have reasonable capacity to question transactions that appear inappropriate or unusual
- has reasonable knowledge of the cardholder's role and daily activities so they can identify transactions which are unusual to the cardholder's responsibilities and activities
- has a reasonable understanding of relevant expenditure policies and procedures
- has not benefited, or perceived to have, from the expenditure.

The Council's credit card policy and guidelines dated February 2015, which applied during the period of examination, required direct managers to ensure the monthly reconciliation was completed, transaction documents were attached to the reconciliation, the total amount balanced to the statement and the account numbers were correct.

The finance staff also ensure the reconciliations were completed, the transactions were supported by tax invoices and account codes were correct. This review is to ensure records are correct and adequate to satisfy financial and tax reporting requirements.

Our review of 30 credit card transactions selected found that all transactions, but one, were reviewed by a person other than the cardholder.

We also found that the independent review of credit card expenditure was not always performed effectively. Our assessment of the selected transactions against the expenditure principles found instances where the:

- business purpose was not clearly justified at the time the expenditure was incurred
- expenditure was not supported by correct and/or adequate records
- expenditure was not always necessary and/or appropriate
- approval of the expenditure's purpose, where applicable, was not in writing.

Further details of these findings are provided in sections 5.3.4, 5.3.5 and 5.3.6. Appendix 3 provides examples of our assessment against the expenditure principles.

We note the Council's revised credit card policy and guidelines provide clearer instructions on the card holder's and direct manager's responsibilities. The revised guideline requires the card holder to provide a suitable description of the expenditure and the purpose of the transaction to assist the direct manager (the independent reviewer) assess the validity of the transaction for Council purposes.

In two instances, the transaction of a senior manager was forwarded on by the relevant division's executive for review by the CEO rather than the division executive. We note that while the CEO is a person senior to the cardholder, the review is generally more effective when performed by the cardholder's supervisor who has more reasonable knowledge of their staff's daily activities and detailed understanding of account codes and policy requirements.

### 5.3.3 Independent review of executives' transactions could be improved

#### Recommendation

The Council update its credit card policy for the independent review of the Executives' credit card transactions.

A suitable senior officer, independent of the Executive, assess the Executives' credit card transactions against the expenditure principles to ensure proper use of public money.

The Council's Audit Committee receive and review a report from the suitable senior officer of any questionable and unresolved transactions to mitigate the actual and perceived risks with the misuse of credit cards and public money.

#### Finding

The transactions tested included expenditure incurred by some Executive members. The credit card policy does not provide for the independent review of the Executive members' reconciliations.

We found that in practice the CEO's reconciliations were reviewed by the Mayor and a senior officer in the governance division. The CEO reviewed the Executive members' reconciliations.

Council staff advised the CEO's reconciliations are reviewed by the Mayor as someone senior to the CEO and the governance officer performs the manager's review. We found that the CEO's reconciliations record the Mayor's signature but did not explain the purpose of the Mayor's review.

We found instances where the independent review was ineffective, and the involvement of the Mayor did not create reasonable capacity for staff to question the CEO's transactions.

We consider it necessary for the Council to identify a suitable senior officer who can exercise independent judgement when reviewing the Executives', including the CEO, credit card transactions. A suitable senior officer may be an internal audit manager or, in the absence of an internal audit function, the senior finance manager. The senior finance manager plays a key role in maintaining strong financial management and effective financial controls. To create a more effective capacity for staff to question transactions, the suitable senior officer may also report and escalate questionable transactions of the Executive to the Council's Audit Committee.

#### 5.3.4 Business purpose was not clearly justified at the time the expenditure was incurred

##### Recommendation

The Council update its relevant policies for:

- the expenditure principles staff need to apply and clearly demonstrate at the time the expenditure was incurred
- the nature and extent of information needed to adequately justify the business purpose of the expenditure. This may include obtaining approval of sensitive expenditure before it is incurred.

##### Finding

We reviewed the relevant reconciliation records which supported the 30 credit card transactions we tested.

Of the 30 credit card transactions, the reconciliation records of 15 transactions (50%) did not clearly justify the business purpose of the expenditure at the time it was incurred.

We made further inquiries with Council staff to explain the business purpose of the expenditure and provide relevant records (including applicable expenditure policies), that were available at the time the expenditure was incurred, to support the expense.

Of the 15 transactions, the Council sought reimbursement from the relevant cardholder for three transactions as the business purpose of the expenditure was not clearly justified. The reimbursements were sought and paid for after we commenced our examination. These transactions were reimbursed after 6 months to 2 years after the transaction date.

For the remaining 12 transactions, we found

- the Council staff were unable to provide records which explained the business purpose of the expenditure for three transactions. We discussed these transactions, where possible, with the relevant cardholder/independent reviewer. A representation was made by the relevant Council staff to explain the business purpose, however, without proper records it was still unclear as to whether the explanation provided supported the transaction in question. On this basis, we concluded that for these transactions the Council had not clearly demonstrated that the expenditure was for business purpose.
- for nine transactions the Council staff were unable to adequately explain the business benefit to the Council by incurring the expenditure. On this basis, we concluded that for these transactions the Council had not demonstrated that the expenditure was for business purposes. Most of these transactions related to entertainment and hospitality expenses. Further commentary on this is provided in section 6.

Further details of these findings are provided in Appendix 2.

Section 124 of the LG Act requires a council to maintain adequate records to explain its expenses. If the Council does not maintain adequate records to support expenditure decisions, it is at risk of not being able to demonstrate, with confidence, that it has spent public money for Council business purposes and for the public benefit. This may then lead to loss of public trust in whether the Council always acts responsibly when spending public money.

### 5.3.5 Not all expenses supported by adequate or correct records

#### Recommendation

The Council maintain adequate and correct records to explain its expenses and demonstrate transparency in the decision-making process and proper use of public money.

Any approvals to support the business purpose prior to expenditure which is outside an approved policy and/or perceived to be unusual or not common practice should be evidenced in writing, either a signature or in an email.

#### Finding

We found the reconciliation records supporting the expense were inadequate or incorrect for many of the transactions reviewed. There were instances where:

- the transaction was not supported by a tax invoice, a requirement of the Council's credit card policy
- the expense descriptions/account coding were incorrect. The Finance staff identified and corrected the account coding as part of their review
- the approval for the purpose of the expenditure was not in writing. These transactions related to expenditure which is not common practice and there is no Council policy



- the reconciliation record did not refer to other relevant records to support its business purpose. For example, prior approvals of the expenditure purpose, reference to the relevant Council policy, specific budget approvals.

Inadequate record keeping increases the risk that the Council cannot explain and be held accountable for its expenditure and comply with its tax reporting requirements (ie FBT, GST). The Council is at risk of not being able to demonstrate, with transparency, proper expenditure of public money. In some instances, this risk has eventuated where transactions incurred by former employees were later reviewed by the Council and the records maintained were inadequate and did not clearly demonstrate the proper use of public money.

### 5.3.6 The expenditure incurred was not always necessary and/or appropriate use of public money

#### Recommendation

The Council update its relevant policies for the expenditure principles staff need to apply. This includes clearly demonstrating when expenditure was incurred that it was both necessary and appropriate.

Refer to recommendations made in sections 4.3.2, 6.2.1, 7.3 and 8.2.1.

#### Finding

Of the 27<sup>9</sup> credit card transactions, we found that for 17 transactions the Council did not clearly demonstrate that the expenditure was necessary in performing its functions and/or it was value for money. The Council incurred an additional cost for minimal or no benefit to either the Council and/or public.

The individual transaction amounts we tested were low value when compared to the Council's total expenditure. However, it may not be the case when compared to the total expenditure type incurred across the Council.

This expenditure information will not always be readily available, if at all, when making expenditure decisions. It is important cardholders exercise and demonstrate proper judgement in applying the expenditure principles when spending public money. This includes considering alternative cost options to ensure value for money is achieved.

We also found that for 16 transactions the nature of the sensitive expenditure may be considered inappropriate by the public when spending public money. For example: purchase

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<sup>9</sup> This excludes the three transactions which were reimbursed.

of alcohol, providing gifts to staff for personal events. Sections 6 to 8 of this Report provides further commentary on specific sensitive expenditure types.

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## 6 Credit card payments – business expenses

### 6.1 Introduction

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Councils have a broad role and undertake many functions to provide for its community as outlined in section 7 of the LG Act. Councils interact with representatives of community member groups, businesses and other tiers of government to perform its functions and achieve its objectives. This involves spending public money on business expenses which can be justified and considered reasonable work-related expenses incurred by staff in performing their official duties.

Credit cards are used to pay for business expenses, some of which are considered sensitive expenditure. Business expenses such as travel, providing entertainment, hospitality and gifts in conducting council business and funded by public money are subject to increased public scrutiny.

The use of credit cards for these expenditure types increases the risk of unauthorised and improper use or waste of public money. It is important the Council has appropriate policies governing this expenditure and controls to reduce these risks and to sustain public trust.

This section of the Report provides our examination findings of business expense transactions and the need for Council to have relevant policy guidance to govern these expenses.

### 6.2 Findings

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#### 6.2.1 Insufficient policy guidance for business expenses

##### Recommendation

The Council identify its key business expenses and develop and implement relevant policy and procedures. These policies provide clear direction and guidance on the principles Council employees need to consider when making expenditure decisions and demonstrate proper use of public money.

In developing its expenditure policies, the Council consider consulting with its community, and other key persons or groups, to better understand the public's expectations of acceptable expenditure behaviours.

##### Finding

We found that during the period examined the Council did not have expenditure policies for the following business expense types:

- Staff travel and other costs while travelling (eg meals, accommodation)
- Entertainment and hospitality (including the provision and consumption of alcohol)
- Gifts.

Our review of a sample of credit card transactions for these sensitive expenditure items found that:

- practices across the Council were inconsistent and some expenditure may not be considered acceptable expenditure behaviour by the Council and/or the public
- for some, there was an inadequate record to explain the expenditure. The business purpose was not justified before or at the time the expenditure was incurred
- prior approval of the business purpose was not in writing
- for some, there was no record that the cardholder had assessed other cost-effective methods to ensure the amount spent was necessary and achieved value for money.

We noted that, for some credit card expenditure, the cardholder sought approval from an executive member prior to incurring the expenditure.

Policies for business expenses should provide the expenditure principles decision makers need to consider in demonstrating proper use of public money.

In recent years, some councils' expenditure behaviours have been subject to public criticism based on the nature of specific expenditure (ie what public money is spent on) which was not considered reasonable by the public. It is publicly known that the Onkaparinga Council has been subject to significant public criticism over its expenditure behaviours. While we have not examined the Onkaparinga Council's expenditure, we have sought to understand how it has responded to the public criticism.

To inform its decision on future practice, the Onkaparinga Council surveyed its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money. The Onkaparinga Council considered the survey results when it developed its new hospitality expenditure guidelines.

In a council agenda paper, a public document, the Onkaparinga Council highlighted any expenditure where the community sentiment did not align with its business practice. The Onkaparinga Council also explained why some business practices were important and that they would continue, but it would aim to minimise any associated costs (eg catering).

We consider that the Onkaparinga Council took appropriate action to seek, understand and consider its community's expectations on expenditure behaviours. It was then better informed of its community's expectations to respond accordingly and develop its policies. We did not review the Onkaparinga Council's revised expenditure policies and guidelines as part of this examination.

Business expense policies should clearly:

- outline the expected behaviours of staff. The procedures/guidelines may provide examples of how staff are expected to apply the principles in situations that need further clarity.
- define key terms including business expense, sensitive expenditure, official functions, hospitality, what is reasonable
- outline the expenditure which is and is not allowed and what is required in exceptional circumstances
- outline the approval processes to ensure the expenditure is for business purpose and proper use of public money. There may be instances when approval is required prior to incurring the expenditure
- set monetary limits or other boundaries to avoid unnecessary use/waste of public money
- outline the documents required to support the amount and nature of the expenditure and explain its business purpose
- set out the monitoring and reporting process of the expenditure, including the process to escalate any policy breaches.

Further commentary on business expenses is provided in sections 6.2.2 to 6.2.4.

#### 6.2.2 Travel expenses were not supported by adequate accounting records

##### Recommendation

The Council develop and implement a travel policy which includes expenditure principles that ensure all travel expenditure is a proper use of public money.

Refer to the recommendation made in section 5.3.5.

##### Finding

Credit cards were used to pay for expenses incurred while Council staff and elected members travelled overseas and interstate. These expenses included flight costs, meals, accommodation and incidentals. We examined five travel related expenses.

We found that the credit card acquittal documentation for four transactions did not:

- evidence the prior approval for the travel
- explain the business purpose and expected benefits to the Council for the travel.

The Council staff were unable to provide any further records to support the request and approval to travel for three transactions. The Council staff advised that one transaction was verbally approved prior to travel and were unable to confirm prior approval for the other two.

We found the Council was unable to provide adequate records which demonstrated that:



- prior written approval for the travel was obtained
- the travel was for business purpose and the expected benefits to the Council
- alternative arrangements had been considered to ensure it was necessary to incur the expenditure and the arrangement value for money
- the expected total travel costs including flights, accommodation, meal and other related costs
- the benefits and outcomes of the travel, where applicable, had been reported.

Appendix 3, example 3 demonstrates a travel expense which was supported by correct and adequate records which explained the expenditure and its business purpose.

The Council did not have a policy which governed its travel arrangements during the period we examined. Travel policy and procedures should:

- cover intrastate, interstate and international travel requirements, including policy on airline club memberships, travel loyalty schemes
- cover all related costs such as accommodation, meals, incidentals and travel during the stay (eg taxi, rental car)
- include necessary restrictions to ensure proper and prudent expenditure behaviour, for example set monetary limits for accommodation arrangements and meal allowances, appropriate airfare class (eg business versus economy), prohibit payment of flight and room upgrades and personal expenses such as mini-bar expenses and in-house movies, travel arrangements relating to accompanying family members
- include the requirements for exceptional and rare circumstances
- require alternative arrangements to be considered (eg skype or teleconference meetings/training) to ensure the expenditure is most cost-effective and to minimise the number of trips required
- outline the travel application and approval process. The application should clearly explain the business purpose for the travel, the expected benefits and outcome to the Council, the alternative arrangements considered, the budgeted travel costs (with value for money being the key consideration for all costs), and any reporting requirements subsequent to the travel
- provide for the administrative arrangements. For example, all travel arrangements are organised through a central division of the Council to maximise the benefits/value with any arrangements with its service providers
- cover the requirements when staff undertake private travel while on official Council travel.

### 6.2.3 Entertainment and hospitality expenses not always proper use of public money

#### Recommendation

The Council develop and implement an entertainment and hospitality policy which includes expenditure principles that ensure all expenditure is a proper use of public money.

Refer to the recommendation made in section 5.3.4.

## Finding

Credit cards were used to pay for entertainment and hospitality expenses such as coffee or lunch for meetings, refreshments for staff morning teas and Christmas lunch, alcohol, movie tickets, and catering for community events and programs.

We found that the business purpose for these transactions were not always clear and, in our view, was not always necessary and/or appropriate use of public money. We believe that this is partly a result of lack of policy guidance on this expenditure.

Entertainment and hospitality policy and procedures should include:

- when it is appropriate to provide entertainment and/or hospitality which is clearly defined by reference to the Council's official functions and business purpose. For example, when
  - building relationships with external parties to further the Council's objectives
  - representing the Council in an official capacity
  - building revenue
  - developing the organisation through training/planning sessions but being cost-effective
- approval prior to the expenditure. The request clearly explains the business purpose of the expenditure, who is attending the function/meeting, the expected benefits and outcome to the Council, a breakdown of the budgeted costs (with value for money being the key consideration for all costs)
- necessary restrictions to ensure proper and prudent expenditure behaviour, for example set monetary limits for catering; the provision of alcohol; circumstances when hospitality will be provided to staff and elected members
- reporting requirements to enable the Council to comply with its tax requirements (eg FBT).

It is our view that the following costs are not proper use of public money, purchase of:

- alcohol unless for resale at official Council events and rare circumstances where the business purpose is clearly justified
- coffee/lunch for off-site meetings between Council staff
- refreshments for celebratory events (eg birthday, farewells, Christmas).

Appendix 2, column F provides details of transactions we concluded were not proper use of public money.

## 6.2.4 Gifts to staff and contractors not always proper use of public money

## Recommendation



The Council develop and implement a gift policy which includes the expenditure principles that ensures all expenditure is proper use of public money.

Refer to the recommendations made in sections 5.3.4, 7.3.2 and 8.2.1.

### Finding

It is reasonable a council would occasionally purchase gifts for business purpose. For example, it is customary practice to provide a gift to an international delegate or prizes for a community event/competition.

The key risks in providing gifts is that:<sup>10</sup>

- the amount or nature of the gift is excessive or/and inappropriate to the reason it's being given
- it is given with a perceived/actual expectation of a favour in return
- it is given in substitution for legitimate payment or remuneration.

We found credit cards were used to pay for gifts to elected members, staff and contractors. The transactions we examined included:

- a \$559-day spa voucher to an employee <sup>(2)</sup>
- a \$250 watch to a retiring employee <sup>(1)</sup>
- \$2,000 on movie vouchers for staff <sup>(1)</sup>
- \$309 on chocolates to staff for Christmas and Easter<sup>(1)</sup>
- \$283 on Christmas gifts to elected members <sup>(3)</sup>
- \$187 on alcohol to paid contractors for going the extra mile.<sup>(2)</sup>

(1) These gifts were provided in accordance with the Council's Recognition of staff policy. Further commentary on this policy expenditure is provided in section 7.

(2) These amounts were reimbursed in late 2018 while conducting our examination. The Council staff advised that they further investigated these payments and determined that they were not for business purpose. We assessed these transactions and concluded they were not proper use of public money. The Council has taken appropriate corrective action by seeking reimbursement for these costs.

(3) Further commentary on gifts to elected members is provided in section 8.

The Council did not have a gift policy during the period we examined. A gift policy should, for example, specify the:

- business purposes for which it is acceptable to provide a gift
- nature of the gift
- value of the gift where it is a modest amount.

<sup>10</sup> New Zealand Controller and Auditor-General, Good practice guide: Controlling sensitive expenditure: Guidelines for public entities, February 2007

## 7 Credit card payments - reward and recognition expenses

### 7.1 Introduction

#### 7.1.1 Relevant law

Section 99 of the LG Act provides for the role and functions of a council's CEO which includes to:

- manage the council's daily operations and affairs to achieve its strategic objectives
- give effect to the human resource management principles prescribed under section 107 of the LG Act and to apply proper management practices.

Section 107 of the LG Act requires a CEO to implement sound human resource management principles to ensure, for example, employees are given reasonable access to training and development, treated fairly and consistently and given regular reports on their performance.

#### 7.1.2 Council CEO's policy

The Council CEO's Recognition of staff policy recognises the contribution made by employees and outlines the recognition programs. This policy also provides for events to support social interaction amongst staff to build and maintain a positive workplace culture, morale and relationships and ensure continued delivery of services to the community remains at a high standard.

The Council's recognition programs include:

- a gift to celebrate Christmas
- celebration of socially significant functions
- annual committee lunches
- support of employees in times of sickness, sadness or celebratory occasions
- loyalty of service
- awards to recognise a level of outstanding service.

The Council's Recognition of staff guidelines provides examples of the rewards staff are given in recognition of their contribution. These rewards include movie tickets, gift vouchers, flowers, certificates, paid time off, morning/afternoon tea, lunch and trophies.

The Council staff advised that a budget of \$46,000 and \$50,000 was allocated in 2016-17 and 2017-18, respectively, to fund these recognition programs. The Council staff were unable to provide a breakdown of the budget against the individual recognition programs.

We also noted that the policy and guideline has not been reviewed since 2010.

### 7.1.3 Relevant credit card expenditure

Of the 30 transactions we examined, seven payments related to expenditure incurred in accordance with the Recognition of staff policy. These transactions were:

- Decorations for the 2016 Christmas function - \$273
- A watch for employee retirement gift - \$249.95
- 200 x \$10 movie passes - \$2,000
- Photo booth hire for the 2017 Christmas function - \$810.90
- 2017 executive Christmas lunch - \$287 (which was reimbursed in mid-2018)
- Christmas staff gifts (chocolates) - \$109
- Easter staff gifts (chocolates) - \$200.

This section of the Report also provides our examination findings of these transactions and to support our recommendation that the Council needs to review its Recognition of Staff policy and guidelines.

## 7.2 Examination approach

We examined the Council's Recognition of staff policy and guidelines dated June 2010. These were:

- current at the time of conducting the examination
- applied during the period examined (ie 1 July 2016 – 30 April 2018).

We acknowledge the importance of staff recognition in workplaces. We also acknowledge that publicly funded workplaces need to be highly aware of justifying the use of public money for any purpose. For our examination we considered the principles outlined in:

- the State Australian Office for the Public Sector's Reward and Recognition good practice guide (SA recognition guide)
- the Ombudsman SA's Report on the investigation of HomeStart Finance dated 10 March 2017.

Like the Council, the South Australian Government strives to be a high performing sector that attracts, develops and retains a highly talented workforce, encourages innovation and continuous improvement, and focus on improving public value.

The SA recognition guide supports the recognition of employees' performance achievements and positive behaviours. The guide states:

*Employees who feel valued, encouraged and appreciated for the work that they do are more likely to be engaged, contribute effectively, work innovatively and perform highly in their roles.*

*Ultimately, comprehensive recognition ensures the attraction and retention of a quality workforce that is adaptable to change and dedicated to achieving results.*

This guide outlines core principles to consider when developing and implementing recognition strategies and programs. While this guide is not applicable to the local government sector, these core principles can apply to any entity, like the Council, which strives to be a high performing organisation. These core principles are consistent with the expenditure principles outlined in section 3.3.

It also notes that best practice research has highlighted that reward and recognition within the public sector can be highly complex.

This guide provides that a reward and recognition program does not have to be costly and gives examples which have no budget implication. It also highlights the following.

*The belief that remuneration (eg distributing cash bonuses or gift cards) is the best way to provide incentive to employees has often been popular with management. However, this approach is not always the best and only way to reward employees.*

*In the Public Sector, we are funded by the public purse and we need to look at innovative and alternative methods of reward.*

*Always remember that funding for recognition activities will be coming from the public purse. Consider how the administration of your reward will appear to taxpayers and whether it can be easily justified. To help you gain perspective on the possible implications of your chosen activity, consider how you would feel if it was to be published in the media.*

The Ombudsman SA reported that:

*... it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary...*

*...Whilst rewarding and recognising staff for their achievements, and creating a positive work environment are appropriate, I do not consider it is appropriate to do this with alcohol or gifts, particularly when suitable boundaries on when such gifts may be awarded are not in place.*

We assessed the Council's recognition of staff policy and guidelines against the following principles to determine whether it enabled proper use of public money.

Aligned with business purpose



The reason for the recognising the performance is aligned with business purpose where it contributes to achieving the Council's objectives. It also encourages behaviours which support the Council's values.

#### Necessary and appropriate

The expenditure is necessary for the Council to achieve its objectives.

The nature of the reward is appropriate and relevant to the performance or behaviour that is being recognised.

The value of the reward is modest or at no additional cost to the Council.

It is important the reward can be easily justified and reflects proper and prudent expenditure of public money.

#### Fair and transparent

The recognition programs are fair and apply to all employees. The recognition strategy is most effective when implemented at the time of the performance achievement. This reinforces the positive behaviours, continued motivation and encourages high standard of performance.

It is important the standards of performance being recognised are clearly defined and documented, recognised in line with policy and applied consistently across the Council to enhance fairness.

### 7.3 Findings

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#### Recommendation

The Council review its recognition of staff policy and guidelines with specific focus on staff performance. The Council consider the following in performing a review:

- to inform its decision on future practice, the Council survey its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information
- research the expected benefits to the council and its community from any proposed monetary recognition practices
- recognising staff for a high standard of performance to achieve council's objectives and delivery of services to the community
- clearly define the standards of high performance for each recognition program
- all recognition programs are aligned with the organisational objectives and values
- the reason for the recognition is clearly linked to Council's business purpose

- the nature of all rewards is appropriate and relevant to the performance or behaviour being recognised
- it is necessary to incur the cost and the value of all rewards is modest or at no additional cost to the Council and relevant to the performance or behaviour being recognised
- the total cost of the recognition programs is modest and withstands Parliamentary and public scrutiny.

The Council reconsider how it supports the staff social club to organise social events to minimise ratepayer cost.

### 7.3.1 Policy intent is not clearly aligned with business purpose

#### Finding

The Council CEO's recognition of staff policy recognises the positive effect social interaction amongst staff can have on the building and maintaining of a positive workplace culture, morale and relationships.

The recognition programs provide for social events and gifts to staff to celebrate achievements, contribution of staff and support social interaction amongst staff.

We found some recognition programs are not clearly aligned with the business purpose and policy intent of recognising performance. In our view, the standard of performance being recognised would be higher than a satisfactory level given staff are already remunerated for performing their role.

We found that there was not a clear link between the employee's contribution and high standard of performance in achieving the Council's objectives for all recognition programs. Further, the reason for the recognition is not clearly aligned with the Council's business purpose. The following are examples.

#### Personal events

The Council provides a gift to employees in support of personal events (such as death, births, marriages, engagements). In these instances, the reason for the reward is not in recognition of the employee's performance in achieving the Council's objectives.

We consider it appropriate for an entity to provide staff support for significant personal events. The nature of this support is generally provided by:

- the conditions of an employee's service, generally as specific leave entitlements.
- staff contributing their own money towards a gift to employees for personal events.



### Christmas social functions

The Council sponsors a Christmas breakfast, a social event, for all staff. The guidelines also allow staff two hours paid time to attend a directorate or team Christmas lunch at the individual's expense.

The Council staff advised that the Christmas event for 2016 and 2017 cost about \$19,000 and \$13,000, respectively. The Christmas events were fully funded by public money.

The Council staff provided a breakdown of the actual cost of the 2016 Christmas event which included:

- \$6,600 for food and drinks
- \$1,160 for entertainment (included a magician)
- \$1,400 for decorations
- \$2,443 for room setup.

The Council staff were unable to provide a breakdown of the actual cost of the 2017 Christmas event. The sample of credit card transactions we tested included a \$810 payment for the hire of a photo booth for the 2017 Christmas event.

In our opinion there was not a clear business benefit obtained by the Council for the amount it budgeted and spent on the Christmas events in achieving its objectives. The amount incurred for entertainment, room set-up and decorations were unnecessary and inappropriate for the Council to incur in achieving its objectives and performing its functions.

The recognition of staff policy and guidelines do not clearly identify the performance achievements being recognised by sponsoring an annual and general social event.

The SA recognition guide states recognition is most effective when it is specific and provided immediately after the performance achievements.

These strategies are not consistent with the principles of reward and recognition but relate more to staff support. These events are typically organised and funded by an entity's social club, which are activities separate from the entity and not funded by public money.

The Council may decide to contribute to a social club event (either monetary or allow the use of Council facilities). Generally, it is our view that it is not necessary or appropriate to use public money to fund social events.

Where the Council makes a financial contribution to a social event or gift to an employee, it also exposes the Council to the risk of negative public and parliamentary scrutiny on its use of rate and taxpayer funds. It is imperative that it can clearly demonstrate that it has observed the expenditure principles outlined in section 3.3 and, without any doubt, its expenditure decision is able to withstand Parliamentary and public scrutiny.

### 7.3.2 Gift rewards not considered necessary or appropriate

#### Finding

The Council's recognition programs include providing gift rewards to staff for the following reasons.

- A gift is provided to staff for Christmas. The Council staff advised that all staff are provided with a chocolate and gift voucher.
- A donation, flowers or gift basket, up to the value of \$75, is provided to staff in support of sickness, sadness (death) or celebratory occasions (engagements, marriages, births).
- A gift(s) to staff for every five years of service. The gift includes movie passes and \$50 - \$150 gift voucher. The value and nature of the gift reward varies depending on the length of service.
- A staff member who retires after 25 years, or more, of service receives a retirement gift up to the value of \$250.
- A \$50 voucher and trophy are provided to employees for specific outstanding service awards.
- Team recognition rewards include movie passes.

The SA Ombudsman's report on the investigation of HomeStart Finance<sup>11</sup> reported that,

*... it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary...*

*...Whilst rewarding and recognising staff for their achievements, and creating a positive work environment are appropriate, I do not consider it is appropriate to do this with alcohol or gifts ...*

Consistent with the SA Ombudsman's view, it is our view, remuneration derived from positions held by council staff should be considered as sufficient and appropriate monetary compensation for performing their duties. Our view is informed by the low tolerance of taxpayers and ratepayers to this type of public expenditure we have noted in the past. Accordingly, we consider gift rewards (movie passes, gift vouchers) are not necessary or appropriate given that the employees are remunerated for performing their roles in line with the relevant employment agreements.

Further, the SA recognition guide outlines key considerations when providing reward and recognition which includes

*Keep the Code of Ethics in mind to ensure that your reward or recognition can be upheld, in particular, against the Professional Conduct Standards (eg the use of government/public resources, conflicts of interest and acceptance of gifts and benefits).*

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<sup>11</sup> Ombudsman SA, 'HomeStart Finance', 10 March 2017

### 7.3.3 The value of the loyalty of service rewards was considered unnecessary

#### Finding

The Council CEO's Recognition of staff policy recognises the contribution made by Council employees and has implemented programs to acknowledge these efforts. One of these programs is the recognition of loyalty of service. The guidelines provide the years of service entitlements for every five years of service and an employee departing the Council with 25 years or more with a satisfactory record.

The entitlements increase in value as the years of service increase. For example, \$20 is spent for five years of service, \$250 is spent for 25 years of service and every five-year anniversary thereafter (ie \$250 is spent at 30, 35, 40 etc years of service). The rewards include letters from the CEO/Manager, movie passes, a day off with pay, morning/afternoon teas, certificate, \$50 - \$150 gift voucher, photo with plaque, engraved watch up to the value based on years of service being recognised.

We acknowledge and support the importance of councils recognising employees' who are dedicated to their work and make long term contributions to achieving the council's objectives and providing services to its community. It is important the nature and value of the reward can be easily justified and demonstrably reasonable to the performance being recognised.

In our view, it is not necessary for the Council to incur all these costs in recognising an individual's years of service milestone. The Council should review the extent and frequency of the years of service being rewarded (ie every 5 years) and identify alternative rewards which have little to no additional cost to the ratepayer.

## 8 Credit card payments – elected members' benefits

### 8.1 Introduction

#### 8.1.1 Relevant law

Section 77 of the LG Act provides a council member to be reimbursed for expenses incurred in performing or discharging official functions and duties. The expenses are of a kind prescribed and approved by the council (either specifically or under a policy which lapses at a general election of the council).

Section 78 of the LG Act enables a council to provide facilities and other forms of support to its elected members to assist them in performing or discharging official functions and duties. The provision of facilities and services are at the council's discretion subject to complying with the following requirements under section 78(2) where:

- (a) The council must specifically resolve that the provision of the facilities or services is necessary or expedient to the performance of discharge of official functions or duties*
- (b) Facilities and services must be available to members on a uniform basis ...*
- (c) Any property provided to a member remains the council's.*

Section 79 of the LG Act requires the council's CEO to keep a register of allowances and benefits for each elected member. This includes details of other benefits paid or payable to, or provided for the benefit of, the elected member.

The LG Act does not define the term benefit. LGASA's model policy on Council Members' Allowances and Benefits refers to the ordinary meaning of benefit which is something that is helpful or favourable. It also states:

*It is common for the Council to incur costs or pay for expenses (or provide a non-monetary benefit) for Council Members in the course of, or related to the performance of, the Council Member's role, functions or duties. Where the Council pays up-front for expenses that would otherwise be reimbursed, or provides Council Members with facilities or services that can be quantified for each Council Member, these are provided to Members for their "benefit"...*

*... It is a 'catch all' term (in addition to the terms 'allowances', 'reimbursement', 'facilities' and 'support') that constitutes expenditure by or on persons in public office made as a result of being a public official. Monies*



*expended are public monies and there is a public interest element of accountability about recording where public monies are allocated and expended.*

### 8.1.2 Council policy

The Council's Council Member Support Policy and Guidelines, dated 26 July 2016, provides for the council members' allowances, support and expenses pursuant to section 77 of the LG Act. This policy includes special functions where

*From time to time Council members and the Executive will have special functions, such as Christmas or staff functions, which will be arranged by the CEO in consultation with the Mayor.*

### 8.1.3 Relevant credit card expenditure

Of the 30 transactions examined, three transactions related to expenditure incurred for the benefit of the elected members. These transactions were for the Mayor's Christmas function held on 13 December 2017.

- Food and drinks at Uleybury Wines - \$2,410.50
- Gift for the Mayor from the CEO and Executive (alcohol) – \$57.90
- Gifts for the Councillors from the Mayor (book) - \$225.

Council staff advised that this expenditure is in accordance with the Council Member Support Policy and Guidelines.

## 8.2 Findings

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### 8.2.1 Expenditure for Council members' lunch and gifts not proper use of public money

#### Recommendation

The Council revise its Council Members Support Policy to remove the provision of special functions which are not consistent with the intent of the LG Act. In doing so, to inform its decision on future practice, the Council survey its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information.

In future, the Council clearly explain the business purpose and business benefit to the Council prior to incurring such expenditure. The Council maintain adequate records to support this explanation.

The Council's audit committee regularly scrutinise sensitive expenditure which results in benefits to the elected members.

#### Finding

We asked Council staff to:

- explain the business purpose of the expenditure and the benefit it provided to the Council in achieving its objectives and providing services to its community
- confirm whether the expenditure was incurred for the council members in performing or discharging their official functions and duties
- provide a list of people who attended the Mayor's lunch.

The Council staff advised the:

- intent of the policy was to provide support for council members in the discharge of their official duties
- policy enables the Mayor to hold a Christmas function and provide gifts
- CEO approved a budget of \$3,000 for the Mayor's 2017 Christmas function
- elected members did not perform or discharge an official function or duty by attending the lunch
- special function is to recognise the efforts by the elected members in discharging their duties throughout the year
- special function is included in this policy to enable the register of allowances and benefits to be complete.



A total of 26 people<sup>12</sup> attended the lunch which included elected members, executive members and their respective partners.

### Business purpose was not justified

We found that the elected members did not perform or discharge official functions and duties while attending the Christmas lunch.

In our view, the Mayor's Christmas lunch and gifts is not consistent with the intent of sections 77 and 78 of the LG Act in that the expenditure was not incurred as part of council members performing or discharging their official functions and duties. We concluded that the Council member support policy has not been implemented appropriately in support of the Mayor's Christmas lunch and gifts.

The Christmas lunch was a social function where all the persons who attended received a private benefit when there was little to no business benefit to the Council. In our view, the cost of the Mayor's Christmas lunch was not proper use of public money.

### The expenditure was unnecessary and inappropriate

The elected members receive an allowance and the required support in performing or discharging their official functions and duties. The Council incurred additional cost with no additional business benefit to the Council. In our view, the Christmas gifts to the elected members was unnecessary and inappropriate use of public money.

### Non-compliance with the policy

We found that the Council did not comply with its approved policy where the:

- Council paid for the cost of elected members' partners and executives and their partners to attend the lunch. The policy is to support the elected members
- policy does not provide for Christmas gifts to the elected members
- 2017 Christmas function and gifts were not disclosed in the register of allowances and benefits.

Overall, we concluded that the expenditure on Mayor's Christmas lunch and gifts was improper use of public money. Continuing this expenditure practice exposes the Council to the risk of negative public and parliamentary scrutiny on its use of rate and taxpayer funds.

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<sup>12</sup> Not all invitees attended the lunch

## 9 Credit card use supports efficiency

### 9.1 Introduction

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Credit cards provide an efficient and convenient method to purchase and pay for high volume and low value goods and services. This purchase/pay method is efficient as it can save time and can reduce associated transaction and processing costs.

### 9.2 Audit approach

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We assessed whether credit cards were issued and used to promote and support its efficiency. This involved analysing credit card data to determine:

- credit cards were issued to relevant Council staff
- the frequency of credit card use by credit cardholders
- credit cards were used for their intended purpose.

We also determined whether the Council undertakes a regular review of the credit card use and payments to support its efficiency.

### 9.3 Findings

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#### 9.3.1 Improvements in analysis of credit card use and expenditure

##### Recommendation

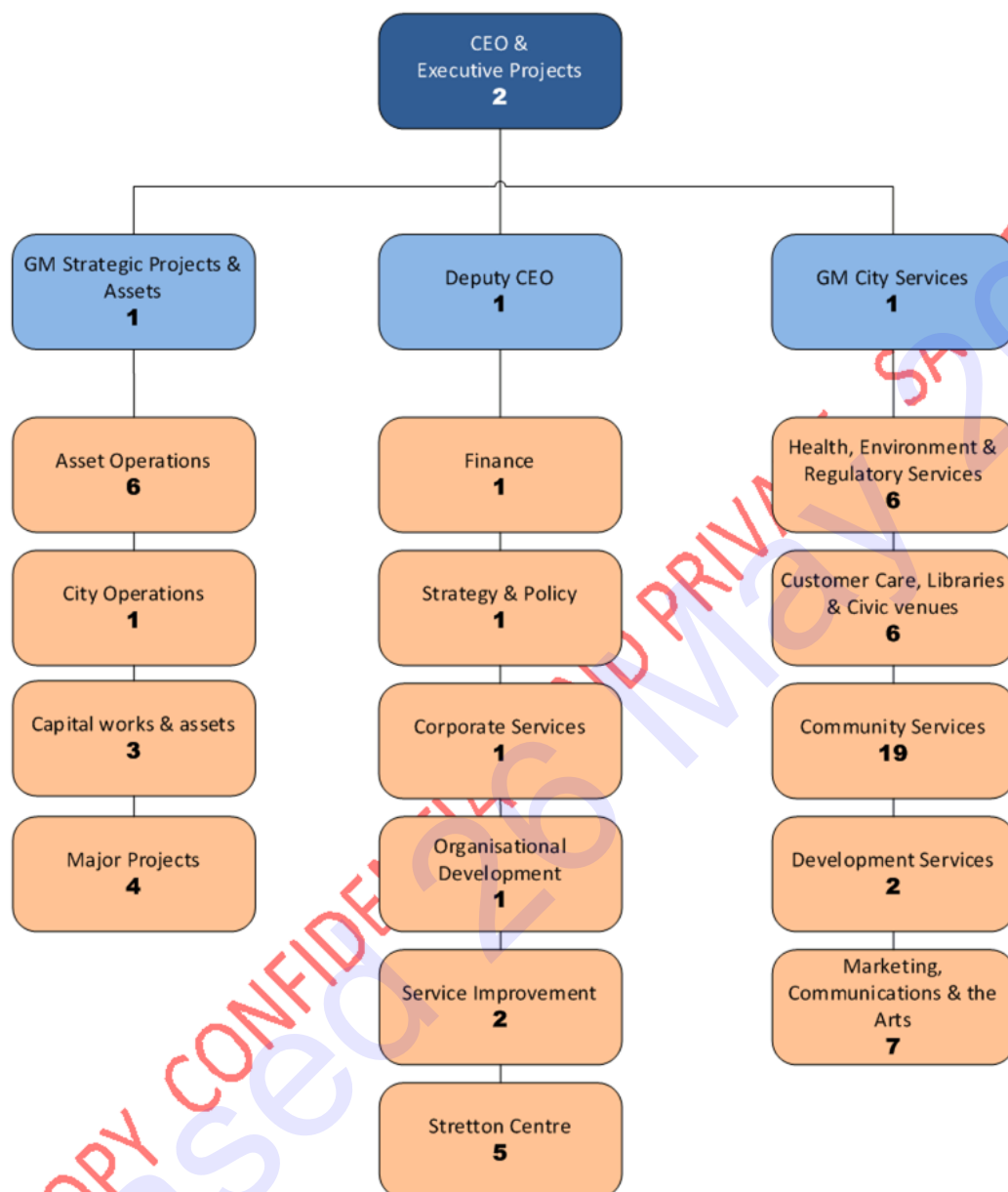
The Council perform a formal and regular analysis of its credit card and accounts payable expenditure to:

- identify areas for further improvement in the use of its credit card facility and practices
- inform its procurement strategy.

##### Finding

We found credit cards were issued to Council staff across the business units and to officers in senior management positions, including each Executive member. Figure 6 provides the number of credit cards issued across the Council as at April 2018.

Figure 6 Distribution of credit cards across the Council



We found that most cardholders used their cards frequently. At the time of this examination, the Council staff were undertaking a review of credit cards to identify those being used less frequently and determine whether the card was required.

We found that the Council does not undertake a formal and regular analysis of its overall credit card expenditure to ensure the credit card facility and practices continue to support its efficiency. The analysis of credit card transaction data can identify:

- infrequent use of credit cards, including active cards that need to be cancelled because the cardholder has changed positions or no longer a Council employee
- breaches in policies, credit card limits and transaction splitting
- credit card transaction and monthly limits which are not appropriate for the cardholder to perform their role
- transactions which appear inappropriate or unusual
- key expenditure categories to better understand the use of credit cards
- transactions with suppliers outside the Council's existing contract arrangements
- suppliers where it may be more efficient and cost-effective to enter into contract arrangements.

The analysis should extend to accounts payable transactions to identify any low value and high value transactions where it may be more efficient to use a credit card.

An analysis of all expenditure data could also provide useful information about the Council's spend culture to assist in a review of its procurement strategy.

## Appendix 1 – Glossary of terms

Term	Description
Accounting records	As defined in section 4(1) of the LG Act – all records and documents relevant to any receipt or payment of money and includes the working papers and other documents necessary to explain the methods and calculations by which statements and accounts are made up
Business expense	reasonable work-related expenses incurred by staff in performing their official duties <sup>13</sup>
Credit/Purchase card	some Councils refer to it as purchase card. In this report we have used the term credit card.
Hospitality	the provision of food, beverage, accommodation, transportation and other amenities at the entity's expense to persons not employed by the entity. <sup>14</sup>  The provision of food and beverages <sup>15</sup>
LGASA	Local Government Association of South Australia
Official travel	Travel undertaken for the purpose of transacting and advancing the agency's business, and must only be undertaken where there is a demonstrated need <sup>16</sup>
Proper and prudent expenditure behaviour	identifying and managing conflicts of interest, being fair, honest and transparent and careful to avoid undesired consequences and being accountable for complying with organisational controls over expenditure <sup>17</sup>
Public money	Both ratepayer and taxpayer (government grant funding)
Sensitive expenditure	Expenditure by a council that could be reasonably considered to give some private benefit to an individual staff member or elected member that is additional to the business benefit to the council of the expenditure. It also includes expenditure by

<sup>13</sup> Guidelines for CEO and Executive Business Expense Policy, September 2017, Victoria State Government Health and Human Services

<sup>14</sup> VIC health guidelines

<sup>15</sup> Barossa Council Hospitality Policy, 19 December 2017

<sup>16</sup> Travel, Allowances and Expenses Policy, 12 September 2016, Australian Government's Australian Digital Health Agency

<sup>17</sup> NZ Audit office Good practice guide, Controlling sensitive expenditure: guidelines for public entities

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a council that could be considered unusual for its purpose and/or functions.<sup>18</sup>

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<sup>18</sup> NZ Audit office Good practice guide, Controlling sensitive expenditure: guidelines for public entities



## Appendix 2 – Credit card transactions – summary of findings

**\*\* We intend to remove the cardholder role and independent reviewer role columns for the final report to Council (ie kept here for discussion only)**

Date	Cardholder role	Independent Reviewer role	Expense Category	Expense Description	Supplier	Amount (\$)	A	B	C	D	E	F
<b>2016</b>												
18 July	Senior Manager Asset Operations	General Manager Strategic Projects & Assets	Contractor – Other	Flights to Melbourne (2 People)	Webjet Melbourne VIC	1,887.32	1	✓	✓	✓	6	✓
18 July	Deputy CEO	Deputy CEO	Entertainment	Lunch Meeting with 1 external Client	Sneakys Restaurant Angle Vale SA	79.50	✗	✗	✗	✗	5	✗
10 Aug	CEO	Mayor, Governance Manager	Telephones – Mobile	Mobile Phone Charges	Telstra Paybyphone Melbourne VIC	682.60	1	✗	✓	✗	✓	✗
15 Sep	Senior Manager Commercialisation & Innovation	CEO	Entertainment	Day Spa Voucher	Temple Day Spa Unley SA	559.00	✗	✗	✗	✗	✗	2
26 Oct	Senior Manager Commercialisation & Innovation	CEO	Materials – Food & Drink	Coffee meeting	Pony – The Rocks Sydney NSW	154.53	✗	✗	✗	✗	5	✗
24 Nov	Operations Coordinator Civic Venues	Manager – Events, Arts & Culture	Contractor – Other	Christmas Party	The Reject Shop Elizabeth SA	273.00	✗	✗	✗	✓	✓	✗
19 Dec	Training & Project Officer – NSS	Manager – Events, Arts & Culture	Contractor – Other	NSS Nick Flight Vouchers	Gift Vouchers – Camberwell Vic	400.00	✗	✗	✗	✗	✗	✗
<b>2017</b>												

Date	Cardholder role	Independent Reviewer role	Expense Category	Expense Description	Supplier	Amount (\$)	A	B	C	D	E	F
21 Feb	CEO	Mayor	Seminars/conferences	Australian 49ers Conference Sydney April 2017	Park Hyatt Sydney Sydney NSW	2,580.00	✓	✗	✗	✗	5	✗
24 Mar	Youth Development Officer	Manager – Events, Arts & Culture	Materials – Uniforms	Uniform NSS	Sportsgirl Melbourne VIC	80.00	✓	4	✓	✗	✓	✓
24 Apr	Senior Manager Asset Operations	General Manager Strategic Projects & Assets	General Expenses	Traffic Infringement	SA Police Adelaide SA	804.00	1	✓	✓	✓	✓	✓
26 Apr	Human Resource Officers	Manager – Organisational Development	Entertainment	Watch – Retirement Gift	Bradford Exchange Parramatta NSW	249.95	✓	✗	✗	✓	✓	✗
16 Jun	HR Systems Officer	Senior Manager – Organisational Development	Entertainment	Cinemoney Movie Tickets CoP Rewards & Recognition Program	Reading Entertainment Melbourne VIC	2,000.00	✓	✗	✗	3	✓	✗
19 Jun	Team Assistant	Manager – Support Service	General Expenses	Donation	Beyond Blue Victoria	500.00	✓	✓	✓	✓	6	✓
28 Jun	HR Systems Officer	Senior Manager – Organisational Development	Training	Confidential Study Assistance	ATO Sydney NSW	10,000.00	✓	✗	✗	✗	7	✗
27 Sep	Manager Fleet	Manager Operations	Short Term Deposits LGFA	Vehicle Parts	Kennewell Pump Sales Salisbury SA	4,000.00	✓	✓	✓	3	✓	✓
16 Oct	CEO	SM Corporate Services	Advertising	Special Report in the AFR 18/10/17	Fairfax Media Group Pyrmont NSW	11,099.00	1	✓	✓	✓	✓	✓
22 Nov	Team Assistant	Senior Manager – Customer Care, Events & the Arts	Contractor – Other	Booth – All staff Christmas	In House Studios Kurwongbah QLD	810.90	✗	✗	✗	✓	✓	✗

Date	Cardholder role	Independent Reviewer role	Expense Category	Expense Description	Supplier	Amount (\$)	A	B	C	D	E	F
4 Dec	CEO	SM Corporate Services	Entertainment	Executive Christmas Lunch (9 Staff)	Sneakys Restaurant Angle Vale SA	287.00	✗	✗	✗	✗	5	2
5 Dec	Manager Operations	Senior Manager Asset Operations	Materials – Food & Drink	Recognition of contractors going the extra mile	BWS Liquor Craigmores SA	186.66	✗	✗	✗	✗	✗	2
7 Dec	Manager – Events, Arts & Culture	Senior Manager – Customer Care, Events & the Arts	Materials – Food & Drink	All staff Xmas gifts	Lindt & Sprungli West Beach SA	109.00	✗	✗	✗	✗	6	✗
8 Dec	Manager Governance	Acting CEO	Materials – General	Mayor Christmas gifts for Crs – book Grenville Anthology	City of Playford Davoren Park SA	225.00	✗	✗	✗	✗	6	✗
8 Dec	Manager Governance	Acting CEO	Materials – General	Christmas gift for Mayor from CEO & Executive members	Dan Murphy's Smithfield SA	57.90	✗	✗	✗	✗	6	✗
15 Dec	Manager Governance	Acting CEO	Materials – Food & Drink	Mayor's Christmas function food/drink	Ulebury Wines Ulebury SA	2,410.50	✗	✗	✗	✗	✓	✗
15 Dec	Com Serv Officer – Health & Wellbeing Older Men	Manager Community Inclusion	Materials – General	Cruise & Lunch	Adelaide Cruises Pty Port Adelaide SA	450.00	1	✓	✓	3	✓	✓
<b>2018</b>												
29 Jan	Human Resources Officer	Manager HR Services	Materials – Food & Drink	Deposit for Taylor & Holmes Catering	Taylor & Holmes Mile End SA	2,000.00	1	✓	✓	✓	✓	✓
19 Mar	Events & Activation Officer	Senior Manager – Customer Care, Events & the Arts	Contractors – Other	Chocolate for staff at Easter	The Reject Shop Elizabeth SA	200.00	✗	✗	✗	✗	6	✗
3 Apr	Deputy CEO	CEO	Entertainment	Lunch with alcohol Farewell	Chianti Classico Adelaide SA	272.60	✗	✗	✗	✗	5	✗

Date	Cardholder role	Independent Reviewer role	Expense Category	Expense Description	Supplier	Amount (\$)	A	B	C	D	E	F
4 Apr	Coordinator Asset Operations	Senior Manager – Asset Operations	Material – Food & Drinks	Staff morning tea	Foodland Smithfield SA	39.10	✗	✗	✗	✗	✗	✗
6 Apr	Manager Governance	SM Corporate Services	Seminars/conferences	Cr and Cr's mother Registration 2018 ALGA Conference	Australian LGA Deakin NSW	1,954.00	✓	✓	✓	✓	✓	✓
11 Apr	Food Co-op Coordinator	Manager – Community Development	Materials – Food Coop	Meat	Crestline Meats Gawler SA	1,153.67	✓	✓	✓	✓	✓	✓

- A Was the expenditure's business purpose justified at the time the expenditure was incurred?
- B Was it necessary for the council to incur the cost in performing its functions and that it achieved value for money?
- C Was the nature of the expenditure appropriate for its intended purpose?
- D Was the expenditure decision made transparently where the transaction record was correct, adequate and explained the expense?
- E Was the expenditure incurred in accordance with Council policy and authorised?
- F Conclusion: The Council had clearly demonstrated that the expenditure was proper use of public money

- ① The credit card transaction reconciliation was not supported by all available records to justify the business purpose at the time the expenditure was incurred (refer to section 5.3.5)
- ② The expenditure was subsequently reimbursed to the Council.
- ③ Minor improvements required to ensure correct and accurate record to support and explain the expenditure.
- ④ While the cost was necessary, the Council did not demonstrate whether it was value for money.
- ⑤ There was no Council policy to support the expenditure at the time it was incurred.

- ⑥ There was no Council policy to support the expenditure at the time it was incurred. Verbal approval was obtained before the expenditure was incurred.
- ⑦ The expenditure was not in accordance with Council policy, but verbal approval was obtained before the expenditure was incurred.



## Appendix 3 – Credit card expenditure - examples

### 1 Example 1 Hospitality

#### 1.1 Transaction details

Credit card transaction						
Expense Category	Supplier Name	Cardholder Role	Reviewer Role	Expense Description	Date	\$
Materials – Food & Drink	Pony	Senior Marketing Manager	CEO	Coffee - meeting	26/10/16	154.53

#### 1.2 Transaction reconciliation records

The expenditure was supported by a tax invoice for \$154.53. The tax invoice recorded that it the expenditure was dinner for two people at the Pony Dining restaurant at The Rocks Centre in Sydney. Of the \$154.53, \$28 was spent on alcohol (18% of total bill).

The reconciliation records did not provide any further information (ie documents or written description) to justify that the dinner was for council business purpose. It also did not record who attended the meeting.

The credit card reconciliation was reviewed by the CEO.

#### 1.3 Discussions with Council staff

We asked Council staff to explain the business purpose of the expenditure and to provide any further documents to support the transaction.

The cardholder was no longer a Council employee at the time of our examination.

The Council staff advised:

- a meeting was with an external party connected with Council business.
- there was no specific policy that governed this expenditure type. There was no policy for interstate travel by employees
- there was no prior approval for the expenditure.

After our further inquiries, the Council reviewed the transaction in more detail and advised:

- the external party was known to the cardholder from their previous employment
- it was a meeting with a developer regarding a potential development
- part of the senior marketing manager's role was to promote the council area and attract new business and development.

In the absence of a Council policy for hospitality, the Acting CEO confirmed that he did not have an issue with Council staff purchasing refreshments when meeting with developers.

## 1.4 What we found

Our assessment of the transaction was based on a review of the Council's records which supported and explained the expenditure and discussions with the Council staff.

We found the cardholder was in Sydney to attend a conference at the time of incurring the dinner expense. Based on the conference details, the conference topic was consistent with the cardholder's role.

We found the Council staff were unable to provide records to support the prior request and approval for the travel. The Council was unable to clearly demonstrate the business benefit to the Council and that it was necessary for the Council to incur all the expenditure which included the meeting with the developer.

We found that the transaction records did not adequately explain the business purpose of the expenditure at the time it was incurred. It did not record who the meeting was held with, the purpose of the meeting and the business benefit to the Council.

In the absence of the cardholder and independent reviewer, the Council staff provided a representation that the transaction was for business purpose. However, without proper records it was still unclear as to whether the explanation provided supported the transaction in question. We concluded that it was unclear whether the meeting was for business purpose.

If the meeting was for business purpose, in our view:

- it was unnecessary for the Council to incur additional costs by paying for hospitality. The meeting could have taken place without paying for the dinner.
- it was inappropriate for the Council to use public money to purchase alcohol.

The Council's practice of entertaining developers may compromise the integrity of its decision-making processes and relationship with the development sector. The Council should carefully consider the way it engages with the development sector to ensure Council staff behaviour does not influence or compromise potential and current development processes.

## 1.5 What we concluded

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We concluded that the Council had not clearly demonstrated that the meeting was for business purpose.

We concluded that the Council did not have adequate policies and procedures which govern travel, entertainment and hospitality expenditure during the period examined.

We concluded that the records did not adequately explain the expected business benefits to support that it was necessary and appropriate to pay for refreshments when meeting with an external party.

We concluded that it was unnecessary and inappropriate for the Council to pay for the dinner meeting in performing its functions. The meeting could have taken place without paying for the dinner. The cardholder received a private benefit with no additional business benefit to the Council.

On this basis, we concluded that the Council had not demonstrated the proper use of public money.

## 2 Example 2 Gift for staff

### 2.1 Transaction details

Credit card transaction						
Expense Category	Supplier Name	Cardholder Role	Reviewer Role	Expense Description	Date	\$
Entertainment	Temple day spa	Senior Marketing Manager	CEO	Day spa voucher	15/09/16	559

### 2.2 Transaction reconciliation records

The expenditure was supported by an order confirmation for \$559 for the purchase of one gift voucher for a day spa package. The order confirmation recorded a non-Council billing address.

The reconciliation records did not provide any further information (ie documents or written description) to justify that the gift voucher was for council business purpose. It also did not record the gift voucher recipient.

The credit card reconciliation was reviewed by the CEO.

### 2.3 Discussions with Council staff

We asked Council staff to explain the business purpose of the expenditure and to provide any further documents to support the transaction.

The cardholder and gift voucher recipient were no longer Council employees at the time of our examination.

The Council staff advised:

- the purpose of the voucher was to recognise the long hours worked by a Council employee
- the CEO verbally agreed to the purpose prior to purchase
- there was no specific policy that governed this expenditure type

- they were unable to confirm when the additional hours were worked and whether the payment was paid in lieu of overtime
- it is not common practice to remunerate staff this way.

The Council staff contacted the former employee subsequent to our initial inquiries to obtain further information about the transaction.

The Council staff advised us on 30 January 2019 that the Council decided to seek reimbursement from the cardholder, a former employee. The Council was reimbursed in early November 2018, over two years after it was incurred. The reimbursement records did not explain why the reimbursement was sought.

## 2.4 What we found

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Our assessment of the transaction was based on a review of the Council's records which supported and explained the expenditure and discussions with the Council staff.

This transaction demonstrated that, while the Council implemented controls over credit card expenditure, they operated ineffectively. It also demonstrates the need for the Council to improve its controls over credit card expenditure.

We found:

- the purchase was not supported by an approved policy or practice
- in absence of an approved policy or practice, written approval for the purpose of the purchase was not obtained
- the independent reviewer was not the cardholder's manager
- there was no record that the independent reviewer questioned the purpose of the transaction and requested further information to be included on the reconciliation to justify business purpose
- there was no record finance staff questioned the transaction at the time they performed their review
- there was lack of record to support the Council staff's representation that the voucher was to recognise the long hours worked by a Council employee.

The Ombudsman SA's Report on the investigation of HomeStart Finance dated 10 March 2017 states

*whether the additional work performed is or is not within the employees' ordinary duties, it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary.*

## 2.5 What we concluded

---



We concluded that, for this transaction, the independent review and finance staff's review were ineffective to question the validity of the transaction, detect the potential misuse of public money and take appropriate action.

We concluded that the Council had not clearly justified that the expenditure was for business purpose and it was necessary in performing its functions.

We concluded that the expenditure was not made transparently as the records did not adequately explain and support the business purpose of the expenditure.

We concluded that the expenditure was not incurred in accordance with documented Council policy, and common Council practices, and there was no record that it had been authorised prior to the expenditure being incurred.

Consistent with the Ombudsman SA's view, it is our view it is inappropriate to provide a Council employee a gift for the hours they have worked. Employee remuneration should be in accordance with the employee's employment conditions and the Council's applicable award agreements and human resource management policies.

On this basis, we concluded that the Council had not demonstrated the proper use of public money and took appropriate corrective action to seek reimbursement of the cost.

### 3 Example 3 Conference fees

#### 3.1 Transaction details

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Credit card transaction						
Expense Category	Supplier Name	Cardholder Role	Reviewer Role	Expense Description	Date	\$
Seminars / conferences	Australian Local Gov	Manager Governance	Senior Manager Corporate Services	Cr Hall and mother registration 2018 ALGA conference	06/04/18	1,954

#### 3.2 Transaction reconciliation records

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The credit card transaction was supported by the tax invoice and the expense description recorded the purpose of the expenditure which was for a councillor to attend the 2018 Australian Local Government Association (ALGA) 2018 Conference.

#### 3.3 Discussions with Council staff

---

We asked Council staff to explain the business purpose of the expenditure and to provide any further documents to support the transaction.

The Council staff advised:

- the business purpose was for an elected member to attend the ALGA conference on the Council's behalf
- the Council member support policy guidelines provide for Council members to attend the ALGA conference each year
- the elected members vote in a Council meeting and approve the attendance of the representative and agree for Council to pay
- the Councillor reimbursed the Council for their partner's cost.

#### 3.4 What we found

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Our assessment of the transaction was based on a review of the Council's records which supported and explained the expenditure and discussions with the Council staff.

The expenditure was for a fee to attend the ALGA National General Assembly in Canberra. This assembly informs ongoing research and policy development and is an opportunity for Local Government to contribute to debate about Australia's future.

The Council meeting minutes of 27 February 2018 records the Council resolved for Cr Halls and Cr Musolino to attend the ALGA National General Assembly to be held in Canberra on 17-20 June 2018.

The expenditure was made in accordance with the Council's member and support policy where it states that

*Council Members' travel expenses to attend a conference or event as a representative of Council will be budgeted and arranged by the Mayor and Councillors Administration Officer.*

*the Mayor and a maximum of two Council Members may attend the ALGA National Conference.*

*Councils Members may choose to take a partner or family member with them when they attend ... interstate representation ... when it is appropriate to do so. The Council Member will be required to reimburse Council for any costs associated with the attendance of their partner ... at the event, including travel, accommodation and meals.*

We found that Councillor Halls reimbursed the Council for the travel and attendance costs of the family member.

The transaction was independently reviewed by the senior manager of corporate services and supported by correct and adequate records which explained the business purpose of the expenditure.

### 3.5 What we concluded

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We concluded that the:

- Council had clearly demonstrated that the conference fee was for business purpose
- expenditure was made in accordance with Council policy and authorised
- transaction was supported by correct and adequate records which explained the business purpose of the expenditure
- expenditure was necessary and appropriate in the Council performing its functions.

On this basis, we concluded that the Council had clearly demonstrated the proper use of public money.

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Mr Andrew Richardson  
Auditor-General  
Auditor-General's Department  
Via email: [ltelford@audit.sa.gov.au](mailto:ltelford@audit.sa.gov.au)

Dear Mr Auditor-General,

**Examination of Credit Card Use and Management in Local Government**

Thank you for the opportunity to provide a response to the draft report on the City of Playford's credit card usage and its efficiency (**the examination**).

The examination has required significant Council resources and throughout the process Council staff have engaged positively with your office. I acknowledge the considerable work that has been undertaken by both your office and Council.

The examination commenced more than 18 months ago and there have been significant improvements in Council's practices since that time as a result of Council's commitment to continuous improvement. I was hopeful the examination would assist the Council to identify further opportunities for improvement in the efficiency of its credit card usage and acknowledge that parts of the draft report do identify such opportunities.

I have attached a detailed response on the draft report broken into the corresponding sections of the draft report. Where we agree with your recommendations we indicate that in our response. We also identify those parts of your report that we have concerns with or do not agree with and the basis for our views.

I am sure you will agree that it is critical that the final report represents an accurate, fair and balanced summary of the relevant findings from the examination of the Council's credit card usage. As provided to us, we are concerned that the draft report is - in parts – not accurate and that overall the report is neither fair nor balanced.

In fact, I believe there are some fundamental issues with the examination and the report. I have summarised my concerns below and respectfully request you consider same and revise the report accordingly.

The following commentary is based on my and my team's reading of the draft report presented to the Council.

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### Examination scope

The scope of the examination as communicated to Council suggested a fair and balanced assessment would be undertaken of the efficiency and economy of credit card usage.

However, it seems that 30 transactions (out of 11,500 during the audit period) are utilised as a 'representative' sample. These 30 transactions have been selected in an apparently targeted fashion, using subjective criteria not identified in the examination scope. Such an approach, in my view, would be inconsistent with the examination scope and would thereby call into question the validity/basis of the examination and your findings as set out in the draft report.

It is important that I address in some detail the scope of the examination. I note the objective of the examination as communicated to the Council and confirmed in the draft report was “.. to *determine whether the Council's credit cards were used and managed efficiently and economically*. However, as is clear from Clause 3.3 of the draft report, what was actually examined was far broader than matters of efficiency and economy. We note in particular that Clause 3.3 of the draft report states the examination included “*controls over credit card expenditure to ensure it was authorised and achieved the proper use of public money*” (my emphasis).

Indeed, this concept of “proper use of public money” is littered throughout the report and evidences that the examination covered far more than efficiency and economy of the Council's credit card use. I consider that the expansion of your examination to include these additional matters is potentially beyond the scope of the examination as set by you and beyond the legislative basis for the examination, namely section 32(1)(a) of the Public Finance and Audit Act 1987. This is an issue that has come to my attention upon reading the draft report however I respectfully consider it is a threshold issue that requires attention and consequent revision in the preparation of a final report.

### Auditor-General's role and powers under the Public Finance and Audit Act 1987

Throughout the draft report there are references to expenditure incurred not being necessary and/or not an appropriate use of public money. The report contains statements about value for money and public perceptions about Council expenditure. On my reading, in making such statements it appears to me that you are expressing opinions as to matters of policy rather than making statements concerning issues of “effectiveness and economy”.

In our view whilst the report references Section 137 of the Local Government Act 1999 (the **LG Act**), it does not, with respect, give it adequate consideration. It is also relevant that the LG Act provides that the Council has all the powers of a natural person.

Decisions about how the Council spends its funds are ultimately matters of policy. The LG Act clearly gives the Council wide power to spend its funds as it sees fit.

Matters concerning value for money, public perception and whether expenditure is necessary and/or proper are of course important but, in my view, unrelated to matters of effectiveness and economy. Further the LG Act does not limit Council's power to spend its funds in the way the draft report appears to suggest. The LG Act clearly leaves it up to the Council as a matter of policy to determine how it will spend its funds and requires that the Council undertake an extensive public consultation process prior to adopting its budget.

Whilst you may have opinions about the Council's expenditure decisions, such opinions ought not, in my view, form part of a report examining efficiency and economy of credit card use. Policy decisions (including decisions about expenditure of funds) are made for many and varied reasons and it is not, in my opinion, the purpose of an examination under the Public Finance and Audit Act 1987 to examine policy decisions. Accordingly, I consider, with respect, that the views/commentary in the draft report about policy matters have no place in a report concerning an examination about efficiency and economy.



### Examination methodology fails to deliver representative determination and conclusion

I have considered the draft report extensively and read it a number of times. Overall I am disappointed with the examination and the draft report.

As I said at the outset, I was hopeful the examination would assist the Council to identify further opportunities for improvement in the efficiency of its credit card usage.

I acknowledge that parts of the report do identify such opportunities and am appreciative of the work undertaken by your office to identify such opportunities for the Council and our community.

That said however, the overwhelming focus of the report is to draw organisation-wide conclusions based on a skewed, unrepresentative sample set transactions.

Even then there is inadequate context provided - specifically that the majority of the transactions were approximately 3 years ago, pertain to persons no longer employed by the Council and that since this time there have been significant improvements in Council's practices as a result of Council's commitment to continuous improvement.

Given that - to my knowledge - no such context was sought by the examining officers then that may explain the lack of context. I can provide such relevant context to your officers at the earliest opportunity.

Overall, I believe that the findings in the report are not representative of the credit card spending behaviour of the Council from the time the examination commenced and certainly not reflective of current approaches now nearly 18 months on with the transactions that were interrogated being 3 years old now.

To select 30 transactions in a targeted fashion, using subjective criteria not identified in the examination scope out of 11,500 that occurred during the examination period and then to report on those 30 transactions as if they are representative of credit card usage across the Council is, in my view, fundamentally flawed.

I note that the final report will be provided to the President of the Legislative Council and the Speaker of the House of Assembly. Accordingly, it is appropriate, in my respectful opinion, that the report not deal with matters extraneous to the examination objective and the functions and powers in the Public Finance and Audit Act 1987. I also consider it is essential that proper context be provided in respect of any relevant and appropriate findings that are incorporated in the final report.

In light of the above concerns I'd appreciate the opportunity to discuss these matters in further detail prior to receiving your final report so that the Council can further consider its position before the final report is provided to the President of the Legislative Council and the Speaker of the House of Assembly.

My comments and the Council's feedback are reflective of my and my team's reading of the draft report and are provided to you in furtherance of the cooperative and constructive approach undertaken to date. If you think I have misinterpreted the draft report or any aspects, I'd welcome the opportunity to gain better clarity. Consistent with that approach I would be happy to meet to work through this in a constructive manner. Given the nature of our feedback and its extensive detail we would question whether the current agreed timeframes will be achievable by both parties and therefore may require reconsideration.

Yours sincerely,



**Sam Green**  
**ACTING CHIEF EXECUTIVE OFFICER**

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### Aggregated Response for Auditor General Report

<b>Item:</b> Overall report
<b>Issue:</b> Public Audit Act Reference
<p><b>Detail:</b> The Auditor-General appears to be expressing opinions as to matters of policy rather than issues of “effectiveness and economy”. Decisions about how the Council expends its funds are ultimately matters of policy. The LG Act clearly gives the Council wide power to spend its funds as it sees fit. I also note the Auditor-General refers in a number of instances to expenditure “not being necessary” and “considered inappropriate by the public”. However these are, in my view, unrelated to matters of effectiveness and economy. Further the LG Act does not limit the Council’s power to spend its funds in the way the Auditor-General appears to suggest. The LG Act clearly leaves it up to the Council as a matter of policy to determine how it will spend its funds and requires that the Council undertake an extensive public consultation process prior to adopting its budget.</p> <p>accounts of a publicly funded body and the effectiveness and economy of its activities.</p>
<p><b>Suggested action:</b> The audit should be reconsidered to be aligned within the parameters set within the Public Finance and Audit Act.</p>

<b>Item:</b> Overall report
<b>Issue:</b> Scope
<p><b>Detail:</b> The objective of the audit was described as having a focus on the economy and efficiency of use and management of credit cards (refer letter to Mayor Docherty on 11 May 2018). The overall report fails to focus on this topic and strays off into a number of other issues with very little focus on the use of credit cards as an effective purchasing tool.</p>
<p><b>Suggested action:</b> The report should be re-written to refocus it on the intended purpose to comment on the effectiveness of credit card usage as a purchasing tool at Playford with other commentary only used to relate back to the audit objective as described in the examination scope (refer letter to Mayor Docherty 11 May 2018).</p>

<b>Item:</b> Overall report
<b>Issue:</b> Biased and unfairly weighted Audit
<p><b>Detail:</b> Whilst it is acknowledged that the audit, as per the examination scope (refer letter to Mayor Docherty 11 May 2018), anticipated ‘assessing a sample of transactions to determine whether the expenditure was proper use of public money’. Council is extremely disappointed with the unscientific approach of dividing transactions into one of two categories being sensitive or non-sensitive and that the assessment of transactions only focussed on the so called sensitive transactions being 35% (by value) of overall transactions. The assessment of only a portion of transactions which have been filtered into a category with no scientific basis calls into question the integrity of the whole audit and how reflective it is of the actual use of credit cards by the City of Playford.</p>
<p><b>Suggested action:</b> The audit be conducted across the whole transaction base providing a more accurate representation of credit card usage at the City of Playford.</p>

<b>Item:</b> Overall report
<b>Issue:</b> Scope
<b>Detail:</b> There are various references in the report to legislation and/or comments by the Ombudsman however there is no commentary around our peak body the Local Government Association (LGA) and how Playford's credit card policies and usage might relate to the sector at the time of the transactions. For example, the LGA only released model policies for credit card, travel and hospitality in September 2018.
<b>Suggested action:</b> Provide some context to Playford's framework in the context of guidance provided by the sectors peak body in the LGA.

<b>Item:</b> Overall report
<b>Issue:</b> Scope
<b>Detail:</b> The report outlines a number of 'Findings'. 'Findings' in an audit sense would usually be founded in fact. Many of the 'Findings' in the report are opinion based and should be referred to as such rather than being positioned as definitive in nature. Commentary is not clear on where expenditure was within policy or where it was made where a policy didn't exist. It is difficult to tell what the final opinions are as they are scattered throughout the report. Key themes are not clearly identified. Will this appear in the Exec Summary?
<b>Suggested action:</b> Overall reading of the report is confusing as to whether 'Findings' are factually based or an interpretation/opinion of the Auditor General. The report layout could do with significant work to enable more ease of reading.

<b>Item:</b> Overall report
<b>Issue:</b> Wording
<b>Detail:</b> Also be careful with use of term Council – does this mean organisation, EM body or staff? Some policies are Council approved and others aren't so when you say Council approved policy do you mean my EM body, Council administration, Council community
<b>Suggested action:</b> clarify definitions – need specifics

<b>Item:</b> 2.1
<b>Issue:</b> Population figure incorrect
<b>Detail:</b>
<b>Suggested action:</b> Correct to 94,000

<b>Item:</b> 2.2.1 and 2.2.2 Definition of proper use of public money & relevant law
<b>Issue:</b> References for definition
<b>Detail:</b> There is no definition for proper use of funds. The 'principles' of lawful, integrity, transparency, accountability are simply an opinion of the auditor.
<b>Suggested action:</b> State clearly that the definition is the Auditor General opinion only.

<b>Item:</b> 2.2.1 and 2.2.2 Definition of proper use of public money & relevant law
<b>Issue:</b> Relevant law (LG act) has no reference to a definition of proper use
<b>Detail:</b> The LG Act only talks about 'value' which does not directly relate to principles described by the Auditor General. Section 137 of the LG Act allows the Council to spend its funds as it thinks fit.
<b>Suggested action:</b> Given the LG Act allows Council to spend its funds as it thinks fit it needs to be clearly stated that there is a significant level of subjectivity in the interpretation of the LG Act and the views of the Auditor General.



<b>Item:</b> 2.2.3 Sensitive expenditure
<b>Issue:</b> Lack of representation and subjective
<b>Detail:</b> There is not enough supporting reasoning as to why a non-representative sample was taken. This does not fit into objective of credit cards being used and managed efficiently and economically. Why look at only sensitive expenditure to prove economic or efficient use? It ignores the weighting for non-sensitive spend – one graph is not enough to explain this. The paragraph already suggests that a totality of spend in these sensitive natures is more important than the individual transaction spend. However a total spend of 0.1% in total would not be significant enough to warrant the definition of extravagant and/or wasteful.
<b>Suggested action:</b> See earlier comments around unfairly weighted audit. Insert a section around representative sampling and the fact that the sensitive selection does not meet the requirements of a representative audit and is statistically biased. Also include % where quoting \$ for sensitive and non-sensitive expenditure to clarify we are talking about 1.7% of total operating costs on credit cards and sensitive expenditure is 0.4%.

<b>Item:</b> 3.2
<b>Issue:</b> Focused review on credit cards used and managed efficiently and economically
<b>Detail:</b> There is no mention in the rest of the report as to the rest of our credit card management process or as to whether or not we are using the credit cards efficiently. The report fails to respond to the objective of the audit.
<b>Suggested action:</b> The report should be re-written to respond to the audit objective.

<b>Item:</b> 3.3 What we examined
<b>Issue:</b> Question intent of review
<b>Detail:</b> Concerns with the language of the report stating that “the transactions we tested helped us to identify instances of non-compliance with council policy....”. Using the words “helped us” suggests a predetermined motivation and does not instil confidence. It is expected that an independent review looking at economy and efficiency would also include a review of where things worked well and proved to be the best course of action or appropriate spend of funds. There is no comment around this at all.
<b>Suggested action:</b> Re-write report to remove bias.

<b>Item:</b> 3.3 What we examined
<b>Issue:</b> Targeted sampling
<b>Detail:</b> The audit only sampled \$45K being 2.6% of total credit card expenditure. All of which was selected from the “sensitive category” only. If you use a targeted sample you get a skewed result. This would be statistically invalid.
<b>Suggested action:</b> Conduct a balanced audit to provide a balanced response to the objective of the audit.



<b>Item:</b> 3.3 Generally accepted standards
<b>Issue:</b> Broad, subjective statement and not relevant to all communities
<b>Detail:</b> Lacks reference. Generally accepted by who? Is there case law to support? Lack of reference to the Playford community and generalisations are also prejudice to certain demographics.
<b>Suggested action:</b> Replace or remove unless this statement is supported with evidence as to what "generally accepted standards" are.

<b>Item:</b> 3.3 Expenditure incurred with relevant policy and authorised
<b>Issue:</b> Statement applied only to sensitive expenditure
<b>Detail:</b> Why is approval and authorisation required only for sensitive expenditure?
<b>Suggested action:</b> Amend wording to remove the reference to sensitive

<b>Item:</b> 3.4 What we did not review
<b>Issue:</b> Misplaced and insufficient
<b>Detail:</b> Exceptions to an audit should be listed first – they provide the basis of context – not the last point. Also need to state that the Auditor General did not review non-sensitive expenditure. Also missing the explanations as to why these items weren't reviewed i.e. controls not reviewed due to the fact these are done on an annual basis with 92% effectiveness.
<b>Suggested action:</b> Amend section to be 3.1 not 3.4 and extend to truly reflected what audit did not consider and why.

<b>Item:</b> 4.2 Examination approach
<b>Issue:</b> States a review of new policy but recommendations are contradictory
<b>Detail:</b> Recommendations include items in the new policy
<b>Suggested action:</b> Suggest review of new policy and remove recommendations already covered.

<b>Item:</b> 4.3.1
<b>Issue:</b> Agreed with recommendation
<b>Detail:</b>
<b>Suggested action:</b> none

<b>Item:</b> 5.2
<b>Issue:</b> Page 16 second paragraph
<b>Detail:</b> This suggests a random 30 transactions. The 30 transactions were clearly selected and not random.
<b>Suggested action:</b> Amend wording – insert "30 selected sensitive transactions"

<b>Item:</b> 5.3.1
<b>Issue:</b> Delegation - inappropriate authorisation in accordance with LG Act
<b>Detail:</b> The Council has sought legal advice and rejects the claims that any of the spend was inappropriately authorised. The LGASA guidance lists 5 main points all of which Council has carried out. Instrument sets out scope of delegation

CONFIRMED by: The expenditure delegation is given to SM Finance and via an appropriate budget allocation method and monthly monitoring all expenditure is managed by Finance in accordance with delegation

Sub delegation should be made in writing, not sufficient to list identity in a column

CONFIRMED by : each role that has the delegations passed on has a separate delegation document that they read and confirm acceptance to ensure the relevant delegate has understood their obligations

If delegations not done properly , the enforceability of decisions and actions taken may be compromised and there may be legal and administrative problems for the council.

CONFIRMED by: all delegations are made clear each time with written evidence of acceptance. Appropriate control mechanisms in place to mitigate comprising actions.

Prepare instruments of sub-delegation by reference to position (only) rather than name.

CONFIRMED by: all delegations prepared on this basis

Ensure that the CEO actually signs off on the [instrument of] sub-delegations.

CONFIRMED by: CEO signature evidence on the sub-delegation register.

Therefore the 'inappropriate' description is unwarranted. The Council accepts that the role of the Financial Limits of Authority document can be more clearly linked to the sub-delegations register to further enhance clarity and has already been updated. However, don't agree with the suggestion that the absence of this document as an appendix to the register warrants conclusion of inappropriate authorisation.

**Suggested action:** Amend wording to offer best practice advice to include the document on the register.

**Item:** 5.3.2

**Issue:** Agreed with recommendation

**Detail:**

**Suggested action:**

**Item:** 5.3.3 Independent review of Executives' Transactions

**Issue:** Reporting to the CGC regarding credit card transactions

**Detail:** Unsure as to why this would only be for Executives then? Why not all card holders/questionable transactions? However we believe these would be adequately dealt with under PID Act.

Updated policy installed the Senior Manager Corporate Services to review CEO card. Don't believe the audit committee should play a role given the adequate mechanisms in the review process and reporting under PID Act.

**Suggested action:** Reconsider recommendation to clarify why just executive

**Item:** 5.3.4 Business purpose not justified

**Issue:** Agreed with recommendation

**Detail:**

**Suggested action:**

<b>Item:</b> 5.3.4 Business purpose not justified
<b>Issue:</b> Findings are subjective
<b>Detail:</b> Clear justification is subjective. Every transaction has a narration to describe detail. Agree that the level of detail can always be improved. This recommendation is based on 4.3.2 and therefore subjective as to what clear justification means – it should mean that it is aligned with policy requirements. The policy asks for detail of the transaction which has been supplied but at varying levels of detail. Therefore this is a question of adequacy of justification not absence of it. The concept of proper records needs to be defined if it is to lead to the conclusion of non-demonstration of business purpose. The nine transactions where staff couldn't explain is open and ambiguous. We contend that they were explained and show proof of various files showing explanations. It is therefore the Auditor General opinion that explanations weren't 'adequate' – again this does not mean they were absent.
<b>Suggested action:</b> Amend wording to show that purpose was given but in the opinion of the Auditor General it wasn't always adequate but they were provided. Revise wording to show that this is the Auditor General interpretation and should not be assumed to be outside of the policy framework in place at the time.

<b>Item:</b> 5.3.5 Correct Records
<b>Issue:</b> Findings are suggestive and biased
<b>Detail:</b> With only a review of 30 selected sensitive transactions, the minor records issues found are not significant or material in nature. It's a biased conclusion based on what would likely be an exception and not the norm. Does not consider that record keeping requirements are governed by other laws such as taxation whereby the credit card statement itself is deemed a record. The requirement to have a tax invoice is only policy driven not legislatively driven.
<b>Suggested action:</b> Remove the second dot point – this is the purpose of their review – it's an effective control at work. Remove approval for expenditure in writing – this is highly impractical and removes the effectiveness of using a credit card in the first place – contradicts everything written in 2.2 – why are credit cards effective. Include record keeping legislation stating requirement is not deficient.

<b>Item:</b> 5.3.6
<b>Issue:</b> Title is written in the negative
<b>Detail:</b> The negative tone of the finding fails to give any balance and ignores where spend was deemed appropriate use of public money.
<b>Suggested action:</b> Restate in a balanced manner with title being neutral. The biased audit does not truly represent the spending environment.

<b>Item:</b> 5.3.6
<b>Issue:</b> Agree with recommendation
<b>Detail:</b>
<b>Suggested action:</b>

<b>Item:</b> 5.3.6 Findings
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<b>Issue:</b> This finding ignores whether transactions were within policy. If the policies are deemed inadequate then that should be the finding/recommendation not that expenditure did not clearly demonstrate that it was necessary etc.
<b>Detail:</b> This finding is highly emotive and given the biased nature of the audit is not a fair representation of the spending behaviour within Council. What is the definition of "clear demonstration"? The four paragraphs swing between the reality of using a credit card and the benefit of immediate decision making and the subjective and emotive opinions of 'inappropriate sensitive' expenditure. The fact is that many of the transactions were allowed under policy and the findings should be around the policy not around the transactions.
<b>Suggested action:</b> Refer previous comments around the biased nature of the audit. Selecting 30 targeted transactions out of the 11,500 transactions during the audit period cannot be used to support a finding of this nature.

<b>Item:</b> 6.2
<b>Issue:</b> Recommendation
<b>Detail:</b> Community consultation is broad and gives the concept of consultation lip service rather than being specific about what the Auditor General is suggesting. What does the Auditor General define as consultation – is it simply displaying transactions on a website to enable feedback or do we need to put policies out for community consultation?
<b>Suggested action:</b> If it's a true recommendation suggest ways that this can be achieved rather than talk generally about consultation.

<b>Item:</b> 6.2.1
<b>Issue:</b> Findings Page 25
<b>Detail:</b> Failure to recognise where expenditure was within policy. Hard to see how a statement of "practices across the Council were inconsistent" when only reviewing 30 selected transactions. There is a need to be clear around the use of the term Council – does this mean the Council body, Elected Members, the administration or credit card holders.
<b>Suggested action:</b> Clarify wording and consider findings in light of the biased audit.

<b>Item:</b> 6.2.2
<b>Issue:</b> Recommendation agreed – need travel policy
<b>Detail:</b> Can't understand why the new and amended policies were not considered or mentioned in the recommendation. Earlier mention in the report suggests that the new policy was reviewed to an extent – why weren't these taken into consideration as work already done. With the audit looking at transactions that now go back almost 3 years, plus the 18 months it has taken to do the audit – the information and detail in the findings are almost irrelevant and not at all reflective of the Council's current policy framework or culture of credit card usage.
<b>Suggested action:</b> Increase reference to the work done by the Council in reviewing policies during the audit period. Acknowledgement of the significantly improved policy framework and the organisational cultural change which has improved practices.

<b>Item:</b> 6.2.3
<b>Issue:</b> Recommendation agreed – need hospitality policy
<b>Detail:</b> Can't understand why the new and amended policies were not considered or mentioned in the recommendation. Earlier mention in the report suggests that the new policy was reviewed to an extent – why weren't these taken into consideration as work already done. With the audit looking at transactions that now go back almost 3 years, plus the 18 months it has taken to do the



audit – the information and detail in the findings are almost irrelevant and not at all reflective of the Council's current policy framework or culture of credit card usage.

**Suggested action:** Increase reference to the work done by the Council in reviewing policies during the audit period. Acknowledgement of the significantly improved policy framework and the organisational cultural change which has improved practices.

**Item: 6.2.3**

**Issue:** Findings are subjective and not aligned with recommendation

**Detail:** Findings give an opinion when the actual finding is that there was spend without a policy in place. The Finding is then based on the type of spend rather than that of absence of policy – it is confusing to read. If the recommendation is to have a policy then findings should simply support that these types of spend occurred without a policy in place rather than offer a subjective opinion on whether that type of expenditure is appropriate.

The view of proper use of money is then out of context. At some point in the report it needs to be clearer that there are differences between findings and what is the Auditor General's opinion on what best use of funds is.

**Suggested action:** Reword findings to complement recommendation

**Item: 6.2.4**

**Issue:** Recommendation agreed – need hospitality policy to include gifts not related to staff. But inconsistent with findings

**Detail:** Can't understand why the new and amended policies were not considered or mentioned in the recommendation. Earlier mention in the report suggests that the new policy was reviewed to an extent – why weren't these taken into consideration as work already done. With the audit looking at transactions that now go back almost 3 years, plus the 18 months it has taken to do the audit – the information and detail in the findings are almost irrelevant and not at all reflective of the Council's current policy framework or culture of credit card usage.

**Suggested action:** Increase reference to the work done by the Council in reviewing policies during the audit period. Acknowledgement of the significantly improved policy framework and the organisational cultural change which has improved practices.

**Item: 6.2.4**

**Issue:** Findings Incorrect and inconsistent with recommendation

**Detail:** Recommendation should be clearer in delineating the difference between gifts to external parties and a policy on Staff Reward and Recognition.

**Suggested action:** Suggest splitting the 6.2.4 into two to cover a) gifts to staff and b) gifts to non staff

**Item: 7.3**

**Issue:** Agree with recommendation

**Detail:**

**Suggested action:** none



<b>Item:</b> 7.3.1, 7.3.2, 7.3.3
<b>Issue:</b> Findings are not factual but a matter of opinion
<b>Detail:</b> These sections need to be made clearer that this is an opinion of the Auditor General not factual findings. Putting this in a 'findings' section suggests findings against a Council policy, legislation etc. The items were done in accordance with an approved policy and approved budget.
<b>Suggested action:</b> Suggest change heading from findings to 'Opinion' and clearly state that Council did nothing outside of policy or budget for these staff expenses but it is the Auditor General opinion that he doesn't agree with the policy of the Council.

<b>Item:</b> 8
<b>Issue:</b> Findings are not factual but a matter of opinion
<b>Detail:</b> These sections need to be made clearer that this is an opinion of the Auditor General not factual findings. Putting this in a 'findings' section suggests findings against a Council policy, legislation etc. The items were done in accordance with an approved policy and approved budget.
<b>Suggested action:</b> Suggest change heading from findings to 'Opinion' and clearly state that Council did nothing outside of policy or budget for these staff expenses but it is the Auditor General opinion that he doesn't agree with the policy of the Council.

<b>Item:</b> 8
<b>Issue:</b> Notes on non-compliance with policy
<b>Detail:</b> The Christmas gifts for elected members were purchased from City of Playford. Therefore monies weren't spent outside of City of Playford. It's the equivalent of doing a journal between two cost centres – but ironically it was more efficient to use a credit card. The overall 'conclusion...was improper use' – the wording is definitive and not clear that this is the AG opinion and 'may' be seen to be an improper use of money. The policy did not dictate attendees and the attendance of executive members and their partners is a recognition that EM support extends after hours and quite often affect family time. It is not unreasonable or incomparable to suggest that a Christmas function that recognises the effort of roles that require much after hours work including evenings and weekends does not cover the attendance of executive and their partners. This is a matter of opinion not compliance.
<b>Suggested action:</b> Recommendation to change wording from non-compliance to that the policy didn't provide enough clarity on this type of expenditure

<b>Item:</b> 9
<b>Issue:</b> Agree with this section
<b>Detail:</b> This section sounds much more like advice and support for Council to continue to gain efficiencies. Disappointing that this section is most aligned with the efficiency part of the scope and is the shortest and last section of the report.
<b>Suggested action:</b> Propose that this could go at the start to support the fact that this report should have a focus on the efficiency of credit cards.

<b>Item:</b> 9
<b>Issue:</b> Agree with this section
<b>Detail:</b> This section sounds much more like advice and support for Council to continue to gain efficiencies. Disappointing that this section is most aligned with the efficiency part of the scope and is the shortest and last section of the report.
<b>Suggested action:</b> Propose that this could go at the start to support the fact that this report should have a focus on the efficiency of credit cards.

<b>Item:</b> Appendix 2 and 3
<b>Issue:</b> Inclusion in the report
<b>Detail:</b> Unsure as to how including the transaction level detail is necessary to inform the parliament of the findings of the audit. The report without appendices should be clearly written and defined to provide enough clarity and understanding of the AG's opinion.
<b>Suggested action:</b> Remove

<b>Item:</b> Appendix 3, 2.3
<b>Issue:</b> Clarity on people and roles
<b>Detail:</b> this transaction was discussed in detail and at length with AG staff on multiple occasions. The general comments about 'staff' and employees are unfair. In this instance the roles should be named. The sequence of events should be made clearer. Did we confirm who the gift recipient was? There were suggestions but was it proven i.e. how do we know that person wasn't an employee. It is my suspicion that the staff member who organised the reimbursement was the recipient, though denied knowledge of it. There is no proof that the finance review was ineffective or any suggestion that the validity of the transaction was not questioned – it may not have been in writing, but that's not to say it didn't happen. Saying the decisions of the CEO at the time were not questioned is an assumption. The nature of the relationships here had a large part to play at this time so regardless of any questioning subsequent to a finance review the decision was final.
<b>Suggested action:</b> Rewrite the opinion to be spend outside of approved policy. This matter was reported by current staff to the appropriate agency demonstrating that current staff appropriately responded to the situation.

**CALL**

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16 August 2019

Mr Andrew Richardson  
Auditor-General  
Auditor-General's Department  
Via email: Andrew Corrigan [Andrew.corrigan@audit.sa.gov.au](mailto:Andrew.corrigan@audit.sa.gov.au)

Dear Auditor-General

**Examination of Credit Card Use and Management in Local Government**

Thank you for the opportunity to continue the process of feedback and review of the draft report on the City of Playford's credit card usage.

We have taken on this process with a considerable amount of due diligence and care inclusive of utilizing the services of Council's newly appointed Internal Auditor who has provided expertise and insight into the draft report presented for consideration. I would be grateful for your consideration of the following items:

Key issues identified in letter dated 23<sup>rd</sup> July 2019

I recognise, based on the follow up from Mr Andrew Corrigan, that certain items may not be addressed in this report but may be taken up in the overall report to Parliament. However, I believe that the response to amend the draft did not adequately address the items provided in the response. Specifically, factual and contextual errors have remained in the draft and the overall edits have not provided clarity to make it easier for the reader. In addition, the legal advice provided around a key issue appears to have been disregarded without explanation. This advice was provided in good faith and it is disappointing that it appears to have been dismissed.

A number of ongoing improvements continue to be made by Council around its credit card and delegations environment which have attracted very little, if any, acknowledgement from the report author. I would be pleased to provide evidence of these improvements so they can be acknowledged in any future report.

Scope issue

Your response in the letter dated 6<sup>th</sup> August stated particularly "that the Auditor-General is not subject to the direction of any person as to the way its statutory functions and powers are carried out or exercised." To take the sentiment from your draft report, the power to do as you see fit. Whilst I acknowledge that a legislative ability may exist I do not believe this obviates the need to communicate and scope changes that are

proposed to, or indeed, have been made. Council is still working from a basis of an original scope and maintains its view that this audit has strayed well outside of the audit scope as presented. Whilst the original scope was discussed at a principal level and agreed, the audit methodology and plan was never provided, despite requests, and it is unlikely that the Council would have been agreeable to the way in which this audit has been carried out and subsequently reported on.

#### Incomplete Audit

In our response and in the follow up conversation with your staff we highlighted the issue regarding the lack of control review. This further reinforces the incomplete nature of the audit. It is our view that there are critical elements that have not been audited which render the audit incomplete and therefore the findings deficient.

Overall, as mentioned in the meeting with your staff, it was our expectation that this audit would be an opportunity for you to provide some valuable improvement advice to the local government sector in a positive capacity. Unfortunately the draft audit report is extremely negative and offers very little balance failing to recognize the good practices in place at the time of the audit and the extensive work done by the Council to improve it's environment prior to the receipt of the draft report.

Attached to this letter is a table that compares previously raised issues with the responses in the latest draft, acknowledging that it is at your discretion to make changes, along with an additional table outlining some consistent and new issues particularly identified by Council's own Internal Audit resource.

Consistent with the cooperative and constructive approach undertaken to date I would be happy to discuss these concerns further to provide greater clarity.

Yours sincerely,



**Sam Green**  
**ACTING CHIEF EXECUTIVE OFFICER**

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Response to the Auditor General Report		
Reference	Issue	Comments
Overall report	Overall report	<p>The audit report does not state the facts and tends to deviate from the actual scope of the audit.</p> <p>This report has not been provided as an audit report as it reads more like an advisory report. The use of sentences like “maybe considered inappropriate in public view” is very speculative in nature and not based on facts/figures.</p> <p>The report should be re-written to deal with facts only if an audit report or express opinions of a general nature with no findings if an advisory report. It cannot be both.</p>
Page 5 and 6 Credit card overview and relevant law	In our opinion the governance and management framework established by the LG Act promotes and supports the principles of proper use of public money.	The scope of the audit does not require opinion or comments on the governance framework established by the LG act. The statement is not relevant and is beyond the scope of the audit as discussed with Council at commencement.
Page 6	Accordingly, <b>section 37</b> the LG Act allows the council to spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties.	It is section 137
Page 7 Playford council overview		In addition to information about the council, it would be useful to highlight key contents of the original credit card policy and how it compares with the new policy. This would help the reader understand the context and provide an upfront view of the changes that have been implemented by the Council in the past 12-18 months.
Page 12	the expenditure was incurred in accordance with relevant Council <b>policy</b> and was <b>authorised</b> . Where practical, the approval of sensitive expenditure, in the absence of policy or unusual circumstances, should be given before the expenditure is incurred	This is not a procurement process. The purpose of providing credit cards is defeated if pre-approval of expenditure is required and the get approval for all documents post incurring the expenditure. This position appears completely at odds with the intent of credit cards as a purchasing tool.
Page 13 What we did not examine	<p>We did not:</p> <ul style="list-style-type: none"> <li>examine the effectiveness of all the Council’s controls over credit card transactions. The examination involved testing the effectiveness of specific controls to the extent it meets the examination sub-objectives</li> <li>confirm that the intended business purpose of the credit card expenditure was fulfilled</li> </ul>	<p>Without testing the effectiveness of all of the controls over credit card transactions this audit cannot be considered as complete and any findings would be deficient.</p> <p>Without confirming that the business purpose for the credit card expenditure was/was not fulfilled, this audit is incomplete and any findings would be deficient.</p>



	<ul style="list-style-type: none"> <li>examine the compliance with new or revised expenditure policies which were effective after the period examined.</li> </ul>	To be fair to the Council and to present an accurate position, a relevant sample should be selected from the new policy period and audit testing and results from the same should be presented in the report.
Page 13 4.1.2 Council CEO's policy	4.1.2 Council CEO's policy	There is no such thing as Council CEO's policy/policies. All the approved and implemented policies are "Council policies". Please amend this in all sections of the audit report. Where these policies were implemented by the administration it is under delegation however still becomes a policy of the Council. Suggesting they are CEO policies is incorrect and inflammatory.
Page 8 Credit card use and expenditure  Page 9	<p>The City of Onkaparinga (Onkaparinga Council) was recently the subject of significant public criticism for some of its expenditure behaviours.</p> <p>The following expenditure categories are commonly considered more sensitive than other types of expenditure like training and materials: travel and accommodation entertainment and hospitality gifts staff support, reward and recognition</p>	<p>Both these statements are speculative in nature as we are not aware of the policies/procedures in place at Onkaparinga Council. The report should refer to the facts and figures pertaining to the City of Playford and relate it to the relevant policies of that Council only. References to other councils should be removed as irrelevant.</p>
Page 18 4.3.2	<p>Credit card policy and procedures</p> <p>The revised credit card policy and procedures could be further improved by including:</p> <ul style="list-style-type: none"> <li>a requirement that the independent review of the transaction be undertaken by a person who did not benefit or perceived to benefit from the expenditure</li> <li>the purpose of approvals. For example, the direct manager approves the reconciliation, however it is not clear what this approval means</li> <li>a specific timeframe for completing the reconciliations. The revised guideline requires reconciliations to be completed by the due date but does not specify a date or timeframe. We found that overall the reconciliations were completed and reviewed within 30 days from the transaction date</li> </ul>	<p>These recommendations are normal business practices and are currently existent and rigorously followed by the City of Playford. The expenditure is reviewed independently by a Senior employee. The credit card reconciliations are completed within 30 days.</p>
Page 19 Specific controls over credit card expenditure	Credit card transactions are being reviewed by a person other than the cardholder. However, we found the independent review was not always performed effectively.	Can you please provide further detail and explanation on the following: "independent review was not always performed effectively". How has this view been formed? How often was it not formed effectively as opposed to how many times it was performed effectively?

Page 19	The Council were unable to provide any formal instrument of sub-delegation made by the CEO to council employees to expend funds within the approved annual budget for 2016-17 and 2017-18. As a result of the deficiency in the delegation process, we concluded that it was unclear whether the power to expend monies for expenditure incurred during the period examined, except for expenditure approved by the CEO and the Senior manager finance, Deputy CEO and Manager finance and accounting positions, was delegated in accordance with the LG Act.	The Council is disappointed that this position is still being reported following the provision of legal advice indicating that expenditure was authorised. Council rejects the findings that any spend was inappropriately authorised. The finding has to be removed from the report. Council does accept that the delegations process should be improved. Refer next point.
Page 19 What we recommended	The CEO's instrument of sub-delegations should provide a complete and accurate formal record of the financial delegations the CEO has sub-delegated. The sub-delegations be clearly referenced to the employee or role position <sup>8</sup> and clearly explain the purposes to which monetary limits apply. Any change to the CEO's delegations or further sub-delegations should be recorded on controlled delegation instruments.	This has already been corrected and implemented. The audit report needs to acknowledge this as actioned and appropriately complete.
Page 20	The Council's audit committee periodically receive and review a report of the CEO's credit card transactions to ensure the expenditure is for business purpose.	The Council's Audit (Corporate Governance Committee) is not involved in reviewing the operational expenses of the Council. It is an advisory committee and it cannot be tasked with daily operations of the Council. This recommendation is beyond the scope of the Audit Committee and should be deleted.
Page 28	We concluded that the reconciliation records supporting the expense were inadequate or incorrect for many of the transactions reviewed. While we have only tested 30 transactions, we do not consider this issue as minor given the: <ul style="list-style-type: none"> <li>• sensitive nature of the expenditure</li> <li>• absence of relevant expenditure policies which increases the risk of inappropriate expenditure behaviour and misuse of public money</li> <li>• LG Act requires councils to maintain records which adequately explain expenses; and</li> <li>• expenses funded by public money.</li> </ul>	To suggest that 30 selected transaction out of 11,500 transactions cannot be considered as minor is completely speculative and with no basis. This sample size is not adequate for the purpose of making a judgement on the entire population. This conclusion should be deleted from the report as it won't stand up to scrutiny.

Page 28	The Council incurred further costs to take corrective action and recover these funds	Can you please specify the details of additional costs? Why has this comment been added to this version of the report? Has this been established or is this a speculative statement. This sentence should be removed and the paragraph returned to its state as per the initial draft commented on by Council.
Page 29	The individual transaction amounts we tested were low value when compared to the Council's total expenditure. However, it may not be the case when compared to the total expenditure type incurred across the Council	This statement is speculative and not based on any facts or data. Suggest that this be deleted from the report.
	We also concluded found that for 16 transactions the nature of the sensitive expenditure may be considered inappropriate in the public's view	This is the auditor's view and the auditor should not be speculating on the public view. Why was this statement added to this version of the report? This cannot be positioned as a conclusion as it is without a factual basis. This paragraph should be returned to its original format as per the initial draft commented on by Council.
Page 30 Credit card payments – business expenses	What we recommended: In revising its expenditure policies, the Council should consider consulting with its community, and other key persons or groups, to better understand the public's expectations of acceptable expenditure behaviours.	The Council has number of policies/procedures and these are approved under an appropriate corporate governance structure. Key policies are presented to the Corporate Governance Committee and Council for approval/endorsement. The role of the Corporate Governance Committee and Council is to reflect the community's views and it is not practical to consult on all policies and indeed would incur additional expenditure. The Local Government Act outlines which policies require community consultation.
Page 30	We found credit cards were used to pay for gifts to contractors.	Please state that this was one instance that was found - One card, one gift to one contractor. This is an inaccurate and inflammatory statement.
Page 34 Travel policy and guidelines	We noted that the new travel policy and guidelines provide direction and guidance on the: <ul style="list-style-type: none"> <li>• Management, approval and administrative arrangements. The policy requires employees, prior to travel, to provide a brief summary on the purpose of the travel which must be approved by the relevant General Manager</li> <li>• Restrictions to enable proper and prudent expenditure behaviour. For example, the guidelines provide thresholds for accommodation and meal expenses; all eligible costs exclude alcoholic beverages</li> <li>• Requirement for exceptions to the policy which are escalated to the Executive for approval.</li> </ul>	The analysis of the new policy and its comparison with the old policy could be better presented at the beginning of the report. It would be useful to provide a comparative table of old vs new policy. This would ensure a fair presentation of the current operating environment of the Council and the improvements made prior to the receipt of this report.

Page 36	Community expectations (Commentary regarding Onkaparinga Council and its remedial actions)	This adds no value to the report. City of Playford is aware of this case and it has already implemented a new and updated policy which has strong control points and review mechanisms. The new policy will be subject to Internal Audit review in due course.
Page 40	The transactions we examined included: <ul style="list-style-type: none"> <li>• a \$559-day spa voucher to an employee (2)</li> <li>• a \$250 watch to a retiring employee (1)</li> <li>• \$2,000 on movie vouchers for staff (1)</li> <li>• \$309 on chocolates to staff for Christmas and Easter(Easter (1)</li> <li>• \$283 on Christmas gifts to elected members (3)</li> <li>• \$187 on alcohol to paid contractors for going the extra mile.(mile. (2)</li> </ul>	Is the detail necessary in this section?
Page 49	The Council staff were unable to provide a breakdown of the actual cost of the 2017 Christmas event.	This statement is factually incorrect. We were requested for a breakdown of the budget which could not be provided. Breakdown of the actuals could have been provided however were never requested. I note actuals were provided for the 2016 event. This statement requires correction.
Page 51 Team recognition	<i>Team recognition</i> Staff had the opportunity to seek resources (time or money) to undertake projects or take part in events that would be valuable to the organisation and provide further recognition to staff.  <i>Annual Awards</i> A program to recognise staff for demonstrating specific behaviours such as leadership, collaboration, outstanding performance of service to community and within the workplace. We believe that these are good recognition programs to recognise high performance and, where done well, will contribute to achieving and maintaining a collaborative, motivated, innovative and high performing organisation.	The reward and recognition of staff recommendations need to align with the culture of the organisation. An organisation that has over 450 employees with a variety of roles required to deliver on a multi-faceted business are not simply addressed with text book recognition programs. In addition, to take from your earlier comments, this should be the decision of the Council with community acceptance, not a recommendation put forward by the Auditor General.  These suggestions are inconsistent with contemporary management practice around employee motivations.
Page 53	Credit card payments – elected members’ benefits	This section needs to be reworded to reflect the policy compliance and not just the audit opinion.
Page 76	In the absence of a Council policy for hospitality, the Acting CEO confirmed that he did not have an issue with Council staff purchasing refreshments when meeting with developers	This statement is provided out of context and not factually correct. This discussion was general in nature and at no point was the acting CEO advised that quotes would be inserted in a final report. Please remove it from the report as it is not evidence based.

Page 64	Appendix 2	It is suggested that this be removed from any report to parliament as it is not necessary for the purposes of reporting on sector level insights and improvement opportunities.
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### Aggregated Response for Auditor General Report

<b>Item:</b> Overall report
<b>Issue:</b> Public Audit Act Reference
<p><b>Detail:</b> The Auditor-General appears to be expressing opinions as to matters of policy rather than issues of “effectiveness and economy”. Decisions about how the Council spends its funds are ultimately matters of policy. The LG Act clearly gives the Council wide power to spend its funds as it sees fit. I also note the Auditor-General refers in a number of instances to expenditure “not being necessary” and “considered inappropriate by the public”. However these are, in my view, unrelated to matters of effectiveness and economy. Further the LG Act does not limit the Council’s power to spend its funds in the way the Auditor-General appears to suggest. The LG Act clearly leaves it up to the Council as a matter of policy to determine how it will spend its funds and requires that the Council undertake an extensive public consultation process prior to adopting its budget.</p> <p>accounts of a publicly funded body and the effectiveness and economy of its activities.</p>
<p><b>Suggested action:</b> The audit should be reconsidered to be aligned within the parameters set within the Public Finance and Audit Act.</p>
<p><b>Response from AG-</b> The AG has responded to this issue via letter dated 6 August 2019, which states that the audit has been conducted in accordance with the scope and the powers under the PFAA 1987. The response is not satisfactory and does not address the concerns raised by the Council, as noted above.</p>
<b>Item:</b> Overall report
<b>Issue:</b> Scope
<p><b>Detail:</b> The objective of the audit was described as having a focus on the economy and efficiency of use and management of credit cards (refer letter to Mayor Docherty on 11 May 2018). The overall report fails to focus on this topic and strays off into a number of other issues with very little focus on the use of credit cards as an effective purchasing tool.</p>
<p><b>Suggested action:</b> The report should be re-written to refocus it on the intended purpose to comment on the effectiveness of credit card usage as a purchasing tool at Playford with other commentary only used to relate back to the audit objective as described in the examination scope (refer letter to Mayor Docherty 11 May 2018).</p>
<p><b>Response from AG:</b> The AG has responded to this issue via letter dated 6 August 2019, which states that the audit has been conducted in accordance with the scope previously agreed with the council in May 2018.</p> <p>The response is not satisfactory and does not address the issue raised by the Council.</p>
<b>Item:</b> Overall report
<b>Issue:</b> Biased and unfairly weighted Audit
<p><b>Detail:</b> Whilst it is acknowledged that the audit, as per the examination scope (refer letter to Mayor Docherty 11 May 2018), anticipated ‘assessing a sample of transactions to determine whether the expenditure was proper use of public money’. Council is extremely disappointed with the unscientific approach of dividing transactions into one of two categories being sensitive or non-sensitive and that the assessment of transactions only focussed on the so called sensitive</p>

transactions being 35% (by value) of overall transactions. The assessment of only a portion of transactions which have been filtered into a category with no scientific basis calls into question the integrity of the whole audit and how reflective it is of the actual use of credit cards by the City of Playford.

**Suggested action:** The audit be conducted across the whole transaction base providing a more accurate representation of credit card usage at the City of Playford.

**Response from AG:** The revised draft provided by AG, describes the sampling methodology used for the purpose of this audit on page 11, section 3.3. However, it needs to clearly state that the *"This selection of 30 transactions is not intended to be a representative sample of the Council's total expenditure. This is a targeted sample based on the sampling technique used by the Auditors and focusing on sensitive transactions."*

*Further the sampling percentage should be stated expressly in the report. This would ensure that the audit report is based on facts and verification procedures carried out by the Audit staff.*

**Item:** Overall report

**Issue:** Scope

**Detail:** There are various references in the report to legislation and/or comments by the Ombudsman however there is no commentary around our peak body the Local Government Association (LGA) and how Playford's credit card policies and usage might relate to the sector at the time of the transactions. For example, the LGA only released model policies for credit card, travel and hospitality in September 2018.

**Suggested action:** Provide some context to Playford's framework in the context of guidance provided by the sectors peak body in the LGA.

**Response from AG:** Addressed

**Item:** Overall report

**Issue:** Scope

**Detail:** The report outlines a number of 'Findings'. 'Findings' in an audit sense would usually be founded in fact. Many of the 'Findings' in the report are opinion based and should be referred to as such rather than being positioned as definitive in nature. Commentary is not clear on where expenditure was within policy or where it was made where a policy didn't exist. It is difficult to tell what the final opinions are as they are scattered throughout the report. Key themes are not clearly identified. Will this appear in the Exec Summary?

**Suggested action:** Overall reading of the report is confusing as to whether 'Findings' are factually based or an interpretation/opinion of the Auditor General. The report layout could do with significant work to enable more ease of reading.

**Response from AG:** This has been partially addressed. The report layout is still very confusing. The recommendations and findings are interchanged in some sections eg 6.3.1 heading is a recommendation, but stated as a finding. In a number of instances the report tends to speculate about perceptions by the community. The report could be a better value add, if it focuses on the issues and the opportunities to improve.

**Item:** Overall report

**Issue:** Wording

<b>Detail:</b> Also be careful with use of term Council – does this mean organisation, EM body or staff? Some policies are Council approved and others aren't so when you say Council approved policy do you mean my EM body, Council administration, Council community
<b>Suggested action:</b> clarify definitions – need specifics
<b>Response from AG:</b> Clarity on definitions not provided in the report.

<b>Item:</b> 2.1
<b>Issue:</b> Population figure incorrect
<b>Detail:</b>
<b>Suggested action:</b> Correct to 94,000
<b>Response from AG:</b> Amended

<b>Item:</b> 2.2.1 and 2.2.2 Definition of proper use of public money & relevant law
<b>Issue:</b> References for definition
<b>Detail:</b> There is no definition for proper use of funds. The 'principles' of lawful, integrity, transparency, accountability are simply an opinion of the auditor.
<b>Suggested action:</b> State clearly that the definition is the Auditor General opinion only.

<b>Item:</b> 2.2.1 and 2.2.2 Definition of proper use of public money & relevant law
<b>Issue:</b> Relevant law (LG act) has no reference to a definition of proper use
<b>Detail:</b> The LG Act only talks about 'value' which does not directly relate to principles described by the Auditor General. Section 137 of the LG Act allows the Council to spend its funds as it thinks fit.
<b>Suggested action:</b> Given the LG Act allows Council to spend its funds as it thinks fit it needs to be clearly stated that there is a significant level of subjectivity in the interpretation of the LG Act and the views of the Auditor General.
<b>Response from AG:</b> Occasional use of the following words in the report "in our opinion". However there should be an express disclaimer or comment regarding this.

<b>Item:</b> 2.2.3 Sensitive expenditure
<b>Issue:</b> Lack of representation and subjective
<b>Detail:</b> There is not enough supporting reasoning as to why a non-representative sample was taken. This does not fit into objective of credit cards being used and managed efficiently and economically. Why look at only sensitive expenditure to prove economic or efficient use? It ignores the weighting for non-sensitive spend – one graph is not enough to explain this. The paragraph already suggests that a totality of spend in these sensitive natures is more important than the individual transaction spend. However a total spend of 0.1% in total would not be significant enough to warrant the definition of extravagant and/or wasteful.
<b>Suggested action:</b> See earlier comments around unfairly weighted audit. Insert a section around representative sampling and the fact that the sensitive selection does not meet the requirements of a representative audit and is statistically biased. Also include % where quoting \$ for sensitive and non-sensitive expenditure to clarify we are talking about 1.7% of total operating costs on credit cards and sensitive expenditure is 0.4%.
<b>Response from AG:</b> The sampling issue has been partially addressed. However they need to state the percentage of sample as compared to the population. This will provide an unbiased view of

the audit procedures and make the reader aware that the report was focussed on review of the 30 targeted transactions.

**Item: 3.2**

**Issue:** Focused review on credit cards used and managed efficiently and economically

**Detail:** There is no mention in the rest of the report as to the rest of our credit card management process or as to whether or not we are using the credit cards efficiently. The report fails to respond to the objective of the audit.

**Suggested action:** The report should be re-written to respond to the audit objective.

**Response from AG-** No comments received from AG on the above suggested action

**Item: 3.3 What we examined**

**Issue:** Question intent of review

**Detail:** Concerns with the language of the report stating that "the transactions we tested helped us to identify instances of non-compliance with council policy....". Using the words "helped us" suggests a predetermined motivation and does not instil confidence. It is expected that an independent review looking at economy and efficiency would also include a review of where things worked well and proved to be the best course of action or appropriate spend of funds. There is no comment around this at all.

**Suggested action:** Re-write report to remove bias.

**Response from AG-** Partially addressed by removing "the transactions we tested helped us to identify instances of non-compliance with council policy..."

**Item: 3.3 What we examined**

**Issue:** Targeted sampling

**Detail:** The audit only sampled \$45K being 2.6% of total credit card expenditure. All of which was selected from the "sensitive category" only. If you use a targeted sample you get a skewed result. This would be statistically invalid.

**Suggested action:** Conduct a balanced audit to provide a balanced response to the objective of the audit.

No comments received from AG on the above suggested action

**Item: 3.3 Generally accepted standards**

**Issue:** Broad, subjective statement and not relevant to all communities

**Detail:** Lacks reference. Generally accepted by who? Is there case law to support? Lack of reference to the Playford community and generalisations are also prejudice to certain demographics.

**Suggested action:** Replace or remove unless this statement is supported with evidence as to what "generally accepted standards" are.

**Item: 3.3 Expenditure incurred with relevant policy and authorised**

**Issue:** Statement applied only to sensitive expenditure



<b>Detail:</b> Why is approval and authorisation required only for sensitive expenditure?
<b>Suggested action:</b> Amend wording to remove the reference to sensitive

<b>Item:</b> 3.4 What we did not review
<b>Issue:</b> Misplaced and insufficient
<b>Detail:</b> Exceptions to an audit should be listed first – they provide the basis of context – not the last point. Also need to state that the Auditor General did not review non-sensitive expenditure. Also missing the explanations as to why these items weren't reviewed i.e. controls not reviewed due to the fact these are done on an annual basis with 92% effectiveness.
<b>Suggested action:</b> Amend section to be 3.1 not 3.4 and extend to truly reflected what audit did not consider and why.
<b>Response from AG:</b> No change, this still appears as the last point.

<b>Item:</b> 4.2 Examination approach
<b>Issue:</b> States a review of new policy but recommendations are contradictory
<b>Detail:</b> Recommendations include items in the new policy
<b>Suggested action:</b> Suggest review of new policy and remove recommendations already covered.
<b>Response from AG:</b> Added a text box at the beginning and highlighted the new policy, but the review seems insufficient as the recommendations have not been referenced to any better practice or certain standards. They appear to be based on opinion or understanding of the auditor. The council would benefit if they are provided some valuable insight into better practice for such policies.

<b>Item:</b> 4.3.1
<b>Issue:</b> Agreed with recommendation
<b>Detail:</b>
<b>Suggested action:</b> none

<b>Item:</b> 5.2
<b>Issue:</b> Page 16 second paragraph
<b>Detail:</b> This suggests a random 30 transactions. The 30 transactions were clearly selected and not random.
<b>Suggested action:</b> Amend wording – insert "30 selected sensitive transactions"
<b>Response from AG:</b> No comments received from AG on the above suggested action

<b>Item:</b> 5.3.1
<b>Issue:</b> Delegation - inappropriate authorisation in accordance with LG Act
<b>Detail:</b> The Council has sought legal advice and rejects the claims that any of the spend was inappropriately authorised. The LGASA guidance lists 5 main points all of which Council has carried out. Instrument sets out scope of delegation CONFIRMED by: The expenditure delegation is given to SM Finance and via an appropriate budget allocation method and monthly monitoring all expenditure is managed by Finance in accordance with delegation  Sub delegation should be made in writing, not sufficient to list identity in a column



CONFIRMED by : each role that has the delegations passed on has a separate delegation document that they read and confirm acceptance to ensure the relevant delegate has understood their obligations

If delegations not done properly , the enforceability of decisions and actions taken may be compromised and there may be legal and administrative problems for the council.

CONFIRMED by: all delegations are made clear each time with written evidence of acceptance. Appropriate control mechanisms in place to mitigate comprising actions.

Prepare instruments of sub-delegation by reference to position (only) rather than name.

CONFIRMED by: all delegations prepared on this basis

Ensure that the CEO actually signs off on the [instrument of] sub-delegations.

CONFIRMED by: CEO signature evidence on the sub-delegation register.

Therefore the 'inappropriate' description is unwarranted. The Council accepts that the role of the Financial Limits of Authority document can be more clearly linked to the sub-delegations register to further enhance clarity and has already been updated. However, don't agree with the suggestion that the absence of this document as an appendix to the register warrants conclusion of inappropriate authorisation.

**Suggested action:** Amend wording to offer best practice advice to include the document on the register.

**Response from AG:** This has been partially reworded but it is still not clear about what exactly the recommendation is and what the best/better practice is.

**Item:** 5.3.2

**Issue:** Agreed with recommendation

**Detail:**

**Suggested action:**

**Item:** 5.3.3 Independent review of Executives' Transactions

**Issue:** Reporting to the CGC regarding credit card transactions

**Detail:** Unsure as to why this would only be for Executives then? Why not all card holders/questionable transactions? However we believe these would be adequately dealt with under PID Act.

Updated policy installed the Senior Manager Corporate Services to review CEO card. Don't believe the audit committee should play a role given the adequate mechanisms in the review process and reporting under PID Act.

**Suggested action:** Reconsider recommendation to clarify why just executive

**Response from AG:** The Corporate Governance Committee is a strategic committee and is not involved in operational matters. It cannot be expected to review the expenses of the CEO and verify the supporting documents. This is an operational matter and internal review mechanisms have been implemented to ensure independent review.

**Item:** 5.3.4 Business purpose not justified

**Issue:** Agreed with recommendation

**Detail:**

**Suggested action:**

<b>Item:</b> 5.3.4 Business purpose not justified
<b>Issue:</b> Findings are subjective
<b>Detail:</b> Clear justification is subjective. Every transaction has a narration to describe detail. Agree that the level of detail can always be improved. This recommendation is based on 4.3.2 and therefore subjective as to what clear justification means – it should mean that it is aligned with policy requirements. The policy asks for detail of the transaction which has been supplied but at varying levels of detail. Therefore this is a question of adequacy of justification not absence of it. The concept of proper records needs to be defined if it is to lead to the conclusion of non-demonstration of business purpose. The nine transactions where staff couldn't explain is open and ambiguous. We contend that they were explained and show proof of various files showing explanations. It is therefore the Auditor General opinion that explanations weren't 'adequate' – again this does not mean they were absent.
<b>Suggested action:</b> Amend wording to show that purpose was given but in the opinion of the Auditor General it wasn't always adequate but they were provided. Revise wording to show that this is the Auditor General interpretation and should not be assumed to be outside of the policy framework in place at the time.
<b>Response from AG:</b> No comments received from AG on the above suggested action

<b>Item:</b> 5.3.5 Correct Records
<b>Issue:</b> Findings are suggestive and biased
<b>Detail:</b> With only a review of 30 selected sensitive transactions, the minor records issues found are not significant or material in nature. It's a biased conclusion based on what would likely be an exception and not the norm. Does not consider that record keeping requirements are governed by other laws such as taxation whereby the credit card statement itself is deemed a record. The requirement to have a tax invoice is only policy driven not legislatively driven.
<b>Suggested action:</b> Remove the second dot point – this is the purpose of their review – it's an effective control at work. Remove approval for expenditure in writing – this is highly impractical and removes the effectiveness of using a credit card in the first place – contradicts everything written in 2.2 – why are credit cards effective. Include record keeping legislation stating requirement is not deficient.
<b>Response from AG:</b> No comments received from AG on the above suggested action

<b>Item:</b> 5.3.6
<b>Issue:</b> Title is written in the negative
<b>Detail:</b> The negative tone of the finding fails to give any balance and ignores where spend was deemed appropriate use of public money.
<b>Suggested action:</b> Restate in a balanced manner with title being neutral. The biased audit does not truly represent the spending environment.
<b>Response from AG:</b> No comments received from AG on the above suggested action

<b>Item:</b> 5.3.6
<b>Issue:</b> Agree with recommendation
<b>Detail:</b>
<b>Suggested action:</b>

<b>Item:</b> 5.3.6 Findings
<b>Issue:</b> This finding ignores whether transactions were within policy. If the policies are deemed inadequate then that should be the finding/recommendation not that expenditure did not clearly demonstrate that it was necessary etc.
<b>Detail:</b> This finding is highly emotive and given the biased nature of the audit is not a fair representation of the spending behaviour within Council. What is the definition of "clear demonstration"? The four paragraphs swing between the reality of using a credit card and the benefit of immediate decision making and the subjective and emotive opinions of 'inappropriate sensitive' expenditure. The fact is that many of the transactions were allowed under policy and the findings should be around the policy not around the transactions.
<b>Suggested action:</b> Refer previous comments around the biased nature of the audit. Selecting 30 targeted transactions out of the 11,500 transactions during the audit period cannot be used to support a finding of this nature.
<b>Response from AG:</b> The revised draft provided by AG, describes the sampling methodology used for the purpose of this audit on page 11, section 3.3. However, it needs to clearly state that the <i>"This selection of 30 transactions is not intended to be a representative sample of the Council's total expenditure. This is a targeted sample based on the sampling technique used by the Auditors and focusing on sensitive transactions."</i> <i>Further the sampling percentage should be stated expressly in the report. This would ensure that the audit report is based on facts and verification procedures carried out by the Audit staff.</i>

<b>Item:</b> 6.2
<b>Issue:</b> Recommendation
<b>Detail:</b> Community consultation is broad and gives the concept of consultation lip service rather than being specific about what the Auditor General is suggesting. What does the Auditor General define as consultation – is it simply displaying transactions on a website to enable feedback or do we need to put policies out for community consultation?
<b>Suggested action:</b> If it's a true recommendation suggest ways that this can be achieved rather than talk generally about consultation.
<b>Response from AG-</b> No comments received from AG on the above suggested action

<b>Item:</b> 6.2.1
<b>Issue:</b> Findings Page 25
<b>Detail:</b> Failure to recognise where expenditure was within policy. Hard to see how a statement of "practices across the Council were inconsistent" when only reviewing 30 selected transactions. There is a need to be clear around the use of the term Council – does this mean the Council body, Elected Members, the administration or credit card holders.
<b>Suggested action:</b> Clarify wording and consider findings in light of the biased audit.
<b>Response from AG:</b> Changes made to the wordings of the finding

<b>Item:</b> 6.2.2
<b>Issue:</b> Recommendation agreed – need travel policy
<b>Detail:</b> Can't understand why the new and amended policies were not considered or mentioned in the recommendation. Earlier mention in the report suggests that the new policy was reviewed

to an extent – why weren't these taken into consideration as work already done. With the audit looking at transactions that now go back almost 3 years, plus the 18 months it has taken to do the audit – the information and detail in the findings are almost irrelevant and not at all reflective of the Council's current policy framework or culture of credit card usage.

**Suggested action:** Increase reference to the work done by the Council in reviewing policies during the audit period. Acknowledgement of the significantly improved policy framework and the organisational cultural change which has improved practices.

**Response from AG:** A new text box has been added at the start of the section.

**Item: 6.2.3**

**Issue:** Recommendation agreed – need hospitality policy

**Detail:** Can't understand why the new and amended policies were not considered or mentioned in the recommendation. Earlier mention in the report suggests that the new policy was reviewed to an extent – why weren't these taken into consideration as work already done. With the audit looking at transactions that now go back almost 3 years, plus the 18 months it has taken to do the audit – the information and detail in the findings are almost irrelevant and not at all reflective of the Council's current policy framework or culture of credit card usage.

**Suggested action:** Increase reference to the work done by the Council in reviewing policies during the audit period. Acknowledgement of the significantly improved policy framework and the organisational cultural change which has improved practices.

**Response from AG:** A new text box has been added at the start of the section.

**Item: 6.2.3**

**Issue:** Findings are subjective and not aligned with recommendation

**Detail:** Findings give an opinion when the actual finding is that there was spend without a policy in place. The Finding is then based on the type of spend rather than that of absence of policy – it is confusing to read. If the recommendation is to have a policy then findings should simply support that these types of spend occurred without a policy in place rather than offer a subjective opinion on whether that type of expenditure is appropriate.

The view of proper use of money is then out of context. At some point in the report it needs to be clearer that there are differences between findings and what is the Auditor General's opinion on what best use of funds is.

**Suggested action:** Reword findings to complement recommendation

**Response from AG:** Partially addressed

**Item: 6.2.4**

**Issue:** Recommendation agreed – need hospitality policy to include gifts not related to staff. But inconsistent with findings

**Detail:** Can't understand why the new and amended policies were not considered or mentioned in the recommendation. Earlier mention in the report suggests that the new policy was reviewed to an extent – why weren't these taken into consideration as work already done. With the audit looking at transactions that now go back almost 3 years, plus the 18 months it has taken to do the audit – the information and detail in the findings are almost irrelevant and not at all reflective of the Council's current policy framework or culture of credit card usage.

**Suggested action:** Increase reference to the work done by the Council in reviewing policies during the audit period. Acknowledgement of the significantly improved policy framework and the organisational cultural change which has improved practices.



<b>Item:</b> 6.2.4
<b>Issue:</b> Findings Incorrect and inconsistent with recommendation
<b>Detail:</b> Recommendation should be clearer in delineating the difference between gifts to external parties and a policy on Staff Reward and Recognition.
<b>Suggested action:</b> Suggest splitting the 6.2.4 into two to cover a) gifts to staff and b) gifts to non staff
No comments received from AG on the above suggested action

<b>Item:</b> 7.3
<b>Issue:</b> Agree with recommendation
<b>Detail:</b>
<b>Suggested action:</b> none

<b>Item:</b> 7.3.1, 7.3.2, 7.3.3
<b>Issue:</b> Findings are not factual but a matter of opinion
<b>Detail:</b> These sections need to be made clearer that this is an opinion of the Auditor General not factual findings. Putting this in a 'findings' section suggests findings against a Council policy, legislation etc. The items were done in accordance with an approved policy and approved budget.
<b>Suggested action:</b> Suggest change heading from findings to 'Opinion' and clearly state that Council did nothing outside of policy or budget for these staff expenses but it is the Auditor General opinion that he doesn't agree with the policy of the Council.
<b>Response from AG:</b> Partially addressed. This should be more of an observation than a finding.

<b>Item:</b> 8
<b>Issue:</b> Findings are not factual but a matter of opinion
<b>Detail:</b> These sections need to be made clearer that this is an opinion of the Auditor General not factual findings. Putting this in a 'findings' section suggests findings against a Council policy, legislation etc. The items were done in accordance with an approved policy and approved budget.
<b>Suggested action:</b> Suggest change heading from findings to 'Opinion' and clearly state that Council did nothing outside of policy or budget for these staff expenses but it is the Auditor General opinion that he doesn't agree with the policy of the Council.
<b>Response from AG:</b> Partially addressed.

<b>Item:</b> 8
<b>Issue:</b> Notes on non-compliance with policy
<b>Detail:</b> The Christmas gifts for elected members were purchased from City of Playford. Therefore monies weren't spent outside of City of Playford. It's the equivalent of doing a journal between two cost centres – but ironically it was more efficient to use a credit card. The overall 'conclusion...was improper use' – the wording is definitive and not clear that this is the AG opinion and 'may' be seen to be an improper use of money. The policy did not dictate attendees and the attendance of executive members and their partners is a recognition that EM support extends after hours and quite often affect family time. It is not unreasonable or incomparable to suggest that a Christmas function that recognises the effort of



roles that require much after hours work including evenings and weekends does not cover the attendance of executive and their partners. This is a matter of opinion not compliance.
<b>Suggested action:</b> Recommendation to change wording from non-compliance to that the policy didn't provide enough clarity on this type of expenditure
No comments received from AG on the above suggested action

<b>Item:</b> 9
<b>Issue:</b> Agree with this section
<b>Detail:</b> This section sounds much more like advice and support for Council to continue to gain efficiencies. Disappointing that this section is most aligned with the efficiency part of the scope and is the shortest and last section of the report.
<b>Suggested action:</b> Propose that this could go at the start to support the fact that this report should have a focus on the efficiency of credit cards.
No comments received from AG on the above suggested action

<b>Item:</b> 9
<b>Issue:</b> Agree with this section
<b>Detail:</b> This section sounds much more like advice and support for Council to continue to gain efficiencies. Disappointing that this section is most aligned with the efficiency part of the scope and is the shortest and last section of the report.
<b>Suggested action:</b> Propose that this could go at the start to support the fact that this report should have a focus on the efficiency of credit cards.
<b>Item:</b> Appendix 2 and 3
<b>Issue:</b> Inclusion in the report
<b>Detail:</b> Unsure as to how including the transaction level detail is necessary to inform the parliament of the findings of the audit. The report without appendices should be clearly written and defined to provide enough clarity and understanding of the AG's opinion.
<b>Suggested action:</b> Remove
No change in status

<b>Item:</b> Appendix 3, 2.3
<b>Issue:</b> Clarity on people and roles
<b>Detail:</b> this transaction was discussed in detail and at length with AG staff on multiple occasions. The general comments about 'staff' and employees are unfair. In this instance the roles should be named. The sequence of events should be made clearer. Did we confirm who the gift recipient was? There were suggestions but was it proven i.e. how do we know that person wasn't an employee. It is my suspicion that the staff member who organised the reimbursement was the recipient, though denied knowledge of it. There is no proof that the finance review was ineffective or any suggestion that the validity of the transaction was not questioned – it may not have been in writing, but that's not to say it didn't happen. Saying the decisions of the CEO at the time were not questioned is an assumption. The nature of the relationships here had a large part to play at this time so regardless of any questioning subsequent to a finance review the decision was final.
<b>Suggested action:</b> Rewrite the opinion to be spend outside of approved policy. This matter was reported by current staff to the appropriate agency demonstrating that current staff appropriately responded to the situation.
No comments received from AG on the above suggested action



# CONFIDENTIAL MINUTES

of

## CONFIDENTIAL CORPORATE GOVERNANCE COMMITTEE MEETING

*Pursuant to the provisions of Section 84(1) of the  
Local Government Act 1999*

HELD IN

**COMMITTEE ROOM  
PLAYFORD CIVIC CENTRE  
10 PLAYFORD BOULEVARD, ELIZABETH**

ON

**TUESDAY, 27 AUGUST 2019  
AT 4:30PM**

The meeting went into confidence at 5:45 pm.

### ATTENDANCE RECORD

#### **PRESIDING MEMBER – MR DAMIAN PULGIES**

Mayor Glenn Docherty Ms Merridie Martin  
Mr Martin White

Cr Jane Onuzans

#### Also in attendance for the meeting:

Acting Chief Executive Officer  
Acting General Manager – Strategic Projects and  
Assets  
Acting General Manager – City Services  
Acting General Manager – Strategy and Corporate  
Acting Senior Manager - Finance  
Senior Manager - Corporate Services  
Manager - Governance  
Internal Auditor  
Minute Taker

Mr Sam Green  
Mr Greg Pattinson  
Mr Andrew Nesbitt  
Ms Grace Pelle  
Ms Samantha Grieve  
Mrs Rosemary Munslow  
Ms Susie Reichstein  
Mr Ninad Sinkar  
Mr Owen Perry

**8.1 AUDIT REPORT**

Responsible Executive Manager : Sam Green

**B. THE BUSINESS MATTER****COMMITTEE RESOLUTION****3702****Moved: Mr White****Seconded: Ms Martin**

The Committee notes the reports and correspondence and supports the reinforcement of the feedback provided so far by management and recommends the following key points are included in the Council's interim response to the amended report:

- The response take the form of a succinct, brief letter that provides:
  - Clarification of language is required to differentiate fact and opinion.
  - Insist on the removal of individual transaction references throughout report in light of the fact that the report references the harm that sensitive expenditure has on the public and re-inforce that the intent of this report should be to inform positive improvements for the Local Government Sector.
  - The current practices and revised policies are clearly outlined to show continuous improvement.
- Further recommended actions:
  - That management consider where there may be a benefit to provide a response in the form of a re-write of the report from a more balanced and factual perspective. The response should also include the time and cost incurred in this process.
  - Provide productive feedback through the appropriate channels regarding the effectiveness of the Auditor-General department in conducting the review.

**CARRIED****C. PROCEDURAL DECISION - TO DECIDE HOW LONG ITEM 8.1 IS TO BE KEPT IN CONFIDENCE****COMMITTEE RESOLUTION****3703****Moved: Mayor Docherty****Seconded: Mr White**

Pursuant to Section 90(2) and Section 91(7) of the Local Government Act 1999, the Committee orders that the following aspects of Item 8.1 be kept confidential in accordance with Committee's reasons to deal with this item in confidence pursuant to Section 90 (3) (j) of the Local Government Act 1999:

- Report for Item 8.1
- Attachment(s) for Item 8.1
- Minutes for Item 8.1

This order shall operate until the State Government release the report to Parliament, or will be reviewed and determined as part of the annual review by Council in accordance with Section 91(9)(a) of the Local Government Act 1999, whichever comes first.

The CEO is delegated the power to release information as necessary to provide a response to Parliament or other agencies as required.

**CARRIED**

The meeting reopened to the public at 6:55 p.m.

## Report to the Council – Examination of credit card use and management

### Contents

<b>1</b>	<b>Executive summary</b>	<b>4</b>
1.1	Introduction	4
1.2	Conclusion	5
1.3	What we found	5
1.4	What we recommended	8
1.5	Response to our recommendations	9
<b>2</b>	<b>Background</b>	<b>10</b>
2.1	Credit card overview	10
2.1.1	Benefits and costs of credit card use	10
2.1.2	Relevant law	10
2.2	Playford Council overview	12
2.2.1	Introduction	12
2.2.2	Credit card use and expenditure	13
<b>3</b>	<b>Audit mandate, objective and scope</b>	<b>16</b>
3.1	Our mandate	16
3.2	Our objective	16
3.3	What we examined and how	16
3.3.1	Review of key controls and transactions	16
3.3.2	Proper use of public money	17
3.4	What we did not examine	19
<b>4</b>	<b>Credit card use supports efficiency</b>	<b>20</b>
4.1	Introduction	20
4.2	Examination approach	20
4.3	Findings	21
4.3.1	Improvements in analysis of credit card use and expenditure	21
<b>5</b>	<b>Credit card policy and procedures</b>	<b>24</b>
5.1	Introduction	24
5.1.1	Relevant law	25
5.1.2	Council policy	25
5.2	Examination approach	25



5.3	Findings	26
5.3.1	Credit card policy and procedures were reviewed in October 2018	26
5.3.2	Revised credit card policy and procedures could be further improved	26
<b>6</b>	<b>Specific controls over credit card expenditure</b>	<b>28</b>
6.1	Introduction	30
6.1.1	Relevant law	30
6.2	Examination approach	30
6.3	Findings	31
6.3.1	The then CEO's 2016-17 and 2017-18 sub-delegations to expend funds were deficient	31
6.3.2	Deficiencies in the independent review of credit card expenditure	33
6.3.3	Independent review of CEO's transactions could be improved	34
6.3.4	Business purpose was not clearly justified at the time expenditure was incurred	36
6.3.5	Not all expenses supported by adequate records	37
6.3.6	The expenditure incurred was not always demonstrated as necessary and/or appropriate use of public money	38
<b>7</b>	<b>Credit card payments – business expenses</b>	<b>40</b>
7.1	Introduction	41
7.2	Examination approach	41
7.3	Findings	42
7.3.1	Policy guidance for business expenses could be further improved	42
7.3.2	Travel expenses were not supported by adequate accounting records	45
7.3.3	Entertainment and hospitality expenses not always proper use of public money	45
7.3.4	Gifts are not always proper use of public money	46
<b>8</b>	<b>Credit card payments - reward and recognition expenses</b>	<b>48</b>
8.1	Introduction	48
8.1.1	Relevant law	48
8.1.2	Council policy	49
8.1.3	Relevant credit card expenditure	49
8.2	Examination approach	50
8.3	Findings	52
8.3.1	Policy intent is not clearly aligned with business purpose	53
8.3.2	Gift rewards not always necessary or appropriate	54
8.3.3	The extent of the value of the loyalty of service rewards was considered unnecessary	55



<b>9</b>	<b>Credit card payments – elected members’ benefits</b>	<b>57</b>
9.1	Introduction	57
9.1.1	Relevant law	57
9.1.2	Council policy	58
9.1.3	Relevant credit card expenditure	59
9.2	Findings	59
9.2.1	Expenditure for Elected members’ lunch and gifts not proper use of public money	59
<b>Appendix 1</b>	<b>Glossary of terms and acronyms</b>	
<b>Appendix 2</b>	<b>Sensitive expenditure categories</b>	
<b>Appendix 3</b>	<b>Expenditure principles</b>	
<b>Appendix 4</b>	<b>Credit card transactions - summary of findings</b>	
<b>Appendix 5</b>	<b>Credit card expenditure - examples</b>	

# 1 Executive summary

## 1.1 Introduction

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Councils have a broad role and undertake many functions to provide for their communities. Generally, a council has the power to do anything necessary and spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties or to achieve its objectives. A council's principal role is to act as a representative, informed and responsible decision-maker in the interests of its community.

The law requires a council to act responsibly when making decisions to spend public money and seek to ensure its resources are used fairly, effectively and efficiently. In recent years, some councils' expenditure behaviours have been subject to public criticism and members of the public considered some expenditure was not reasonable and/or waste of public money. This negatively impacts public trust in the South Australian local government sector.

A credit card is an efficient and convenient tool to use to purchase or pay for goods and services with public money. Credit cards are used for a range of council expenditure, some which, by their nature, are subject to increased public sensitivity where the expenditure may:

- create a perception that the individual(s) received a private benefit(s) in addition to the business benefit to the council
- be considered unusual for the council's purpose or function
- be considered to provide no benefit to the public.

For the purposes of this examination, we refer to these expenses as sensitive expenditure. While efficient, the use of credit cards increases the risk of unauthorised and improper use or waste of public money. These risks must be managed effectively, for a council to avoid probity issues, reputational harm and loss of public trust that the council is acting responsibly and for the public benefit. The loss in public trust may have a detrimental impact on the council's ability to perform its functions efficiently and effectively.

It is important a council has appropriate policies governing this expenditure and controls to reduce these risks.

We acknowledge that the nature of what we describe as sensitive expenditure, means assessments about the appropriateness and effectiveness of some spending involves subjective judgement. We have analysed practices in local and state government here and in other jurisdictions, to inform our approach to this examination. A goal of this examination, which includes other councils in its scope, is to seek to ensure the best and clearest guidance is available to those spending public money to gain effectiveness and reduce risk in the long term.

The examination objective was to determine whether the City of Playford's (the Council) credit cards were used and managed efficiently and economically. We examined the Council's policies and procedures for the use and management of credit cards and determined whether the credit cards were being used to promote and support its efficiency.

We also examined two key controls over credit card expenditure to ensure it was authorised and achieved the proper use of public money. This also included a review of policies which governed specific expense types we examined. We tested 30 selected credit card transactions<sup>1</sup> to determine whether:

- two key control activities were being performed effectively, namely the selected transactions were authorised and independently reviewed
- expenditure complied with policy or to identify gaps in policy
- expenditure was consistent with the proper use of public money by assessing them against specific expenditure principles (see section 3.3.2)

The examination covered the period from 1 July 2016 to 30 April 2018.

In the course of this examination, the Council has continued to improve its practices where it has introduced and revised various policies. We have acknowledged them where relevant. We have not examined their application. We did review them to be able to provide any observations we considered would be relevant.

The matters raised in this report and the transactions we reviewed are now historical to the Council given its improved policies and practices over the last 12 months. However, there are important lessons about good expenditure behaviours when spending public money, no matter the payment mechanism, that can be learned and applied throughout the local government sector. We will encourage all public agencies, both state and local, to read our report and consider whether our findings and the Council's improvements can be used to improve their own practices.

## 1.2 Conclusion

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Intentionally blank – a conclusion will be made after receiving the Council's response. The Council will receive a draft copy of the Report to Parliament for review.

## 1.3 What we found

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Credit card use supports efficiency (section 4)

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<sup>1</sup> This selection of 30 transactions is not intended to be a representative sample of the Council's total expenditure.

Credit cards were issued to Council staff across the business units and to officers in senior management positions, including each Executive member. Most cardholders used their cards frequently and for low value and high-volume transactions.

Overall, credit cards were used for its intended purpose where they were used for low value and high-volume transactions and minimal instances of transaction splitting. Further, credit cards were not used to pay suppliers under existing contract arrangements.

The Council does not undertake a formal and regular analysis of its overall credit card expenditure to ensure the credit card facility and practices continue to support its efficiency.

### Credit card policy and procedures (section 5)

The Council adopted a revised credit card policy and guidelines in October 2018 which provide more direction and guidance on the use and management of credit cards. The Council's review of its credit card policy and procedures were overdue at the time we started the examination in May 2018. We found it could be further improved by including:

- the expenditure principles the cardholder is required to apply, and clearly evidence, to ensure proper use of public money
- a requirement to record the business purpose of sensitive expenditure transactions
- more direction to improve the independent review process.

### Specific controls over credit card expenditure (section 6)

#### *Financial delegations*

For the period examined, 2016-17 and 2017-18, the Council were unable to provide any formal instrument of sub-delegation made by the then CEO to council employees, other than the Senior manager finance, Deputy CEO and Manager finance and accounting positions, to expend funds within the approved annual budget for those years. As a result of the deficiency in the delegation process, we concluded that it was unclear whether the power to expend monies for expenditure incurred during the period examined was delegated in accordance with the LG Act.

In responding to this finding, in July 2019 the Council introduced changes to the delegation process to ensure controlled instruments of sub-delegations are in place and properly managed. We did not review this new process in detail as it came into effect after the examination period and after we had completed the examination work.

#### *Independent review*

Credit card transactions are being reviewed by a person other than the cardholder. We found the independent review was not always performed effectively. The Council's revised credit card policy and guidelines, dated October 2018, provide clearer instructions on the independent reviewer's responsibilities.

#### *Expenditure principles*



We considered that the reconciliation records supporting the expense were inadequate for many of the transactions we reviewed, as they did not record the business purpose of the expenditure at the time it was incurred.

We were not satisfied that the Council staff had adequately explained the business benefit to the Council, and the public benefit, by incurring the expenditure for nine of the 30 transactions reviewed. The Council were unable to provide records which explained the business purpose of expenditure for three transactions.

We were not satisfied that, for 17 transactions, the Council had demonstrated it was necessary to incur the expenditure in performing its functions and the benefit it provided to the public.

We noted the Council's revised credit card policy and guidelines requires the card holder to provide a suitable description and the purpose of the expenditure to assist the direct manager (the independent reviewer) assess the validity of the transaction for Council purposes

#### Credit card payments – business expenses (section 7)

The Council adopted two new administrative policies and guidelines to support travel and hospitality expenses, dated 1 October 2018, before we communicated our examination findings. Our review of the selected credit card transactions for business expense items found there was a need for the Council to have relevant policies and guidelines to govern these expenses. We identified further areas of improvement that could be made to these policies and procedures.

We were not satisfied that the business purposes for the hospitality expense transactions we reviewed were always clear and, in our view, was not always a necessary and/or appropriate use of public money. It is our view that the following costs are not proper use of public money, other than in rare circumstances and where the business purpose is clearly justified, purchase of:

- alcohol, unless for resale at official Council events
- coffee/lunch for off-site meetings between Council staff
- refreshments for celebratory events (eg birthday, farewells, Christmas).

We found credit cards were used to pay for gifts to contractors. We noted that the Council's revised hospitality policy, dated 1 October 2018, does not allow for gifts to suppliers, customers and other external stakeholders.

#### Credit card payments – reward and recognition expenses (section 8)

The Council adopted a revised employee recognition policy and guideline, dated 13 February 2019, before we had communicated our examination findings. Our review of the selected



credit card transactions found there was a need for the Council to review its recognition of staff policy and guidelines.

We were not satisfied that there was a clear link between the employee's contribution and high standard of performance in achieving the Council's objectives for all recognition programs (for example Christmas social functions). Further, the reason for the recognition is not, in our opinion, clearly aligned with the Council's business purpose.

We consider gifts and gift rewards to staff, other than in rare circumstances and where the business purpose is clearly justified, are not necessary or appropriate given that employees are remunerated for performing their roles in line with the relevant employment agreements.

#### Credit card payments – elected members' benefits (section 9)

We examined three expenses incurred for the Elected members' 2017 Christmas lunch. The Council's Member and support policy and guidelines provides for special functions. In our view, the Elected members' Christmas lunch and gifts are not consistent with the intent of section 77 and 78 of the LG Act in that the expenditure was not incurred as part of council members performing or discharging their official functions and duties.

In our view,

- the Christmas lunch was a social function where all persons who attended received a private benefit with little to no business benefit to the Council
- the Christmas gifts to the elected members was unnecessary and inappropriate use of public money.

In our opinion, these costs were not proper use of public money. Continuing this expenditure practice exposes the Council to risk of negative public and Parliamentary scrutiny on its use of rate and taxpayer funds.

### 1.4 What we recommended

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We recommended the Council:

1. perform a formal and regular analysis of its credit card and accounts payable expenditure to (section 4.3.1):
  - identify areas for further improvement in the use of its credit card facility and practices
  - inform its procurement strategy.
2. reviews its policies, together with the relevant procedures, regularly and by its expected due date (section 5.3.1)
3. consider and update its credit card policy and guidelines for the improvements we identified (section 5.3.2)

4. consider, as it decides future risk priorities, an internal audit or legal advisor review the delegation process and documents to ensure they are clear, complete and an accurate record of the delegations in accordance with the LG Act. We consider better practice would be for sub-delegations to be clearly referenced to the relevant role position and not to the individual employee (section 6.3.1).
5. perform a review of a sample of credit card transactions to ensure the independent review is operating effectively and in line with the new/revised policies and guidelines (section 6.3.2)
6. consider a suitable senior officer assess the Executive's credit card transactions against the expenditure principles and report any questionable and unresolved transactions to the Executive group (section 6.3.3)
7. audit committee periodically receive and review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purpose (section 6.3.3)
8. update its relevant policies for the (sections 6.3.4 and 6.3.6):
  - expenditure principles that staff need to apply and clearly demonstrate at the time expenditure is incurred
  - nature and extent of information needed to adequately justify the business purpose of the expenditure
9. maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and proper use of public money (section 6.3.5)
10. consider and update its travel and hospitality policies and guidelines for the improvements we identified (section 7.3.1)
11. in revising its expenditure policies, should consider consulting with its community, and other key persons or groups, to better understand the public's expectations of acceptable expenditure behaviours (section 7.3.1)
12. perform a review of its business expense transactions to ensure the new/revised policies and guidelines have been implemented and operating effectively (section 7.3.1)
13. review its employee recognition policy and guidelines with specific focus on staff performance and the expenditure principles (section 8.3.1)
14. revise its Mayor Support and Elected Member Support policy and guidelines to remove the provision of special functions (section 9.2.1)
15. to inform its decision on future practice, survey its community to understand the public's expectations of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information (section 9.2.1)
16. audit committee regularly scrutinise sensitive expenditure which results in benefits to the elected members to determine whether it is proper use of public money (section 9.2.1)

## 1.5 Response to our recommendations

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Council's response to be included once received

## 2 Background

### 2.1 Credit card overview

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#### 2.1.1 Benefits and costs of credit card use

A credit card is an efficient and convenient tool to use when spending public money for high volume and low value goods and services. Credit card use, because of its convenience, can also increase the risk of unauthorised transactions (eg intentional/unintentional use for personal items, cash withdrawals) and misuse and waste of public money. These risks must be managed effectively, for a council to avoid probity issues, reputational harm and loss of public trust that the council is acting responsibly and for the public benefit.

The loss in public trust may have a detrimental impact on the council's ability to perform its functions efficiently and effectively. It may, for example:

- compromise the council's ability to attract new businesses to the area
- involve significant cost to restore and sustain public trust
- have a negative impact on the council's culture and staff morale.

It is imperative a council, like other public sector entities, can always demonstrate proper and prudent expenditure behaviour when spending public money that meets legislative requirements, withstands Parliamentary and public scrutiny and maintain public trust in the council.

#### 2.1.2 Relevant law

Councils in South Australia are established and governed by the LG Act. The LG Act has requirements for administration and financial accountability that establishes a governance and management framework. This framework integrates the roles and functions of a council, as a body corporate, Councillors, as members of a council's governing body, and the CEO, as the person responsible for the executive management of the council.

This framework is directed towards ensuring the sustainability of councils and focuses on achieving their development objectives and their provision of services to the community. It obliges a council to provide assurance that their decisions and actions support the achievement of a council's objectives across its different functions.

The LG Act establishes the powers and functions of a council and a CEO. Generally, a council has the power to do anything necessary to perform or discharge its functions or duties or to achieve its objectives (section 36 of the LG Act).

Accordingly, section 137 the LG Act allows the council to spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties. In performing its role



and functions, a council must observe principles provided in section 8 of the LG Act which include, to:

- manage its operations and affairs in a manner that emphasises the importance of service to the community
- seek to ensure that its resources are used fairly, effectively and efficiently
- achieve and maintain standards of good public administration
- ensure the sustainability of the council's long-term financial position and performance.

These principles are embedded in various provisions of the LG Act as follows and applicable to this examination.

Section 49 of the LG Act requires a council to maintain procurement policies, practices and procedures to:

- obtain value in the expenditure of public money
- provide for ethical and fair treatment of participants
- ensure probity, accountability and transparency in procurement operations.

Section 124 of the LG Act requires a council to keep accounting records that correctly and adequately record and explain its revenues, expenses, assets and liabilities.

Section 44 of the LG Act enables a council to delegate its powers or functions to a council employee. It also enables the council's CEO to sub-delegate his/her delegated power. A council is required to maintain a separate record of all delegations under section 44 of the LG Act and review them at least once every financial year.

In our opinion, the governance and management framework established by the LG Act promotes and supports the principles of proper use of public money.

Further commentary on this framework is provided in section 4 of the Auditor-General's Report 10 of 2018 *Examination of the District Council of Coober Pedy*.

There are no specific legislative requirements or current sector-wide guidance which provide for the use of credit cards in the South Australian local government sector. Councils are also individually elected bodies, responsible and accountable for their own decisions taken within the LG Act framework. Consequently, it is important individual councils have their own expenditure policies and controls, which provide adequate direction and guidance to ensure the council can clearly demonstrate proper use of public money. At the time of writing this Report, the Local Government Association of South Australia (LGASA) had commenced work on a draft credit card model policy for the local government sector. The LGASA was also consulting with councils on a suite of expenditure policies.

## 2.2 Playford Council overview

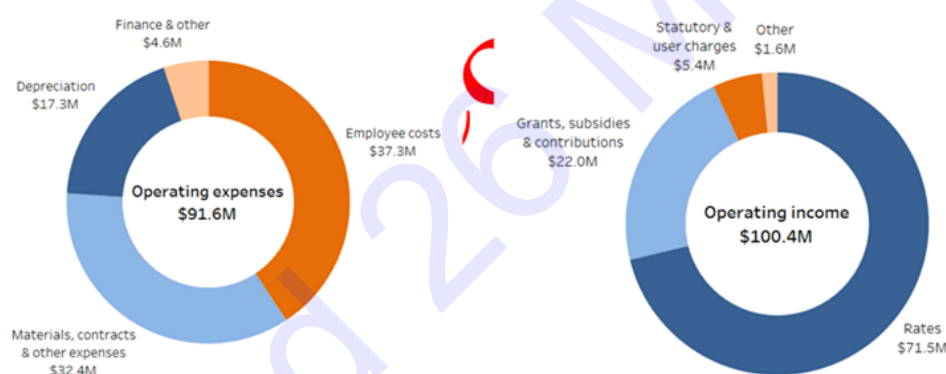
### 2.2.1 Introduction

The City of Playford (the Council) is responsible for managing its local area of 345 km<sup>2</sup> with a population of over 90,000 and is a fast-growing outer metropolitan area.<sup>2</sup> It provides a range of services, facilities and programs to its community which include:

- local roads, footpaths and drainage
- waste collection and recycling management
- library and information services
- recreation, sporting and cultural activities.

The Council reported operating surpluses of \$8.8 million and \$3.7 million in 2016-17 and 2017-18, respectively. The figures 1 and 2 below show the Council's sources of income and expenditure incurred to deliver services to its community over the past two financial years.

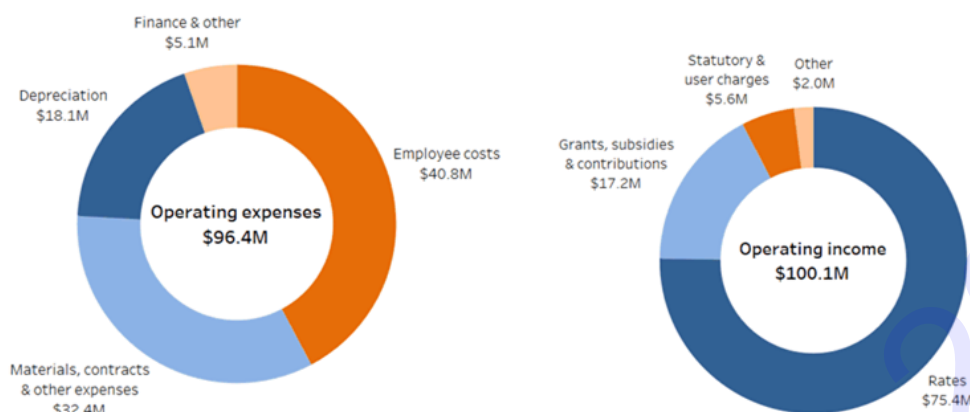
**Figure 1: Sources of income and expenditure incurred in 2016-17<sup>3</sup>**



<sup>2</sup> The Council's State of City Report 2018, November 2018

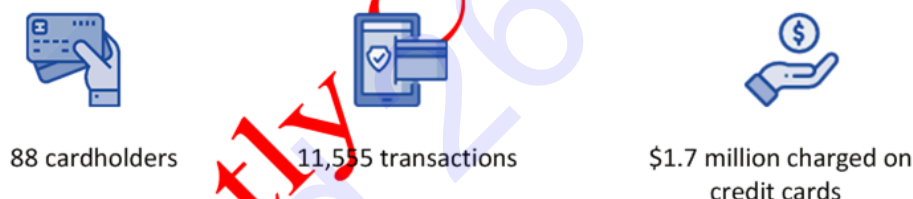
<sup>3</sup> Data sourced from the Council's audited financial statements for the year ending 30 June 2018



Figure 2: Sources of income and expenditure incurred in 2017-18 <sup>4</sup>

### 2.2.2 Credit card use and expenditure

The following shows a summary of the Council's credit card use and expenditure for the examination period (1 July 2016 – 30 April 2018).



The total amount of \$1.7 million charged on credit cards, over a 22-month period, is small when compared to the annual amount spent on material, contracts and other expenses of \$32 million per year, being in the order of less than 3% of these expenses.

However, events in the South Australian and other jurisdiction public and local government sectors have shown that what public money is spent on (ie nature of the expenditure), including through credit cards, is of significant interest to at least parts of the community. This is especially so if the public's perception is of improper expenditure. As an example, the City of Onkaparinga (Onkaparinga Council) was the subject of significant public criticism for some of its expenditure behaviours in 2018.

These events and related reports show there is an increased public sensitivity where the expenditure of public money may:

<sup>4</sup> Data sourced from the Council's audited financial statements for the year ending 30 June 2018

- create a perception that the staff member or council member received a private benefit(s) in addition to the business benefit to the council
- be considered unusual for the council's purpose or function
- be considered to provide no benefit to the public.

We identified expenditure types of a sensitive nature by analysing reports prepared by universities and government organisations in Australia and New Zealand. Appendix 2 provides a list of these reports. We found the following expenditure categories are commonly considered more sensitive than other types of expenditure like training and materials:

- travel and accommodation
- entertainment and hospitality
- gifts
- staff support, reward and recognition.

We analysed the credit card expenditure data for the period 1 July 2016 – 30 April 2018, to understand the nature of expenditure and categorised the total population in sub-categories based on the information (transaction description, expenditure type, amount) recorded in the Council's credit card system. We then separated what we have described as non-sensitive and sensitive types of spending.

Figures 3 and 4 shows the Council's main credit card expenditure categories over the period examined.

Figure 3: Non-sensitive expenditure

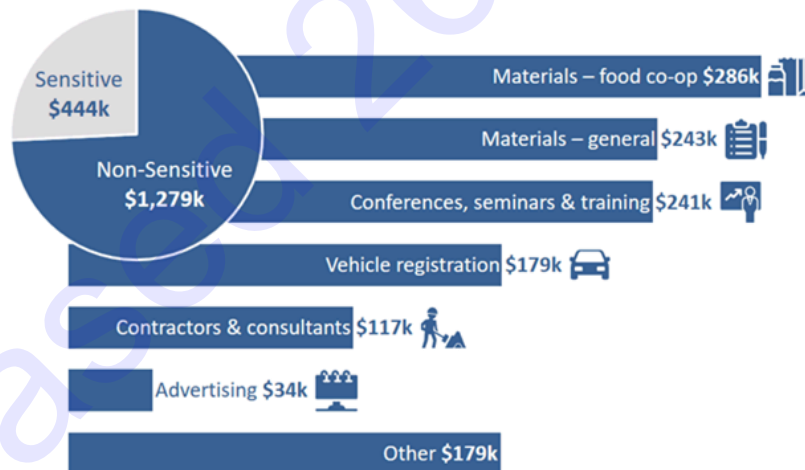
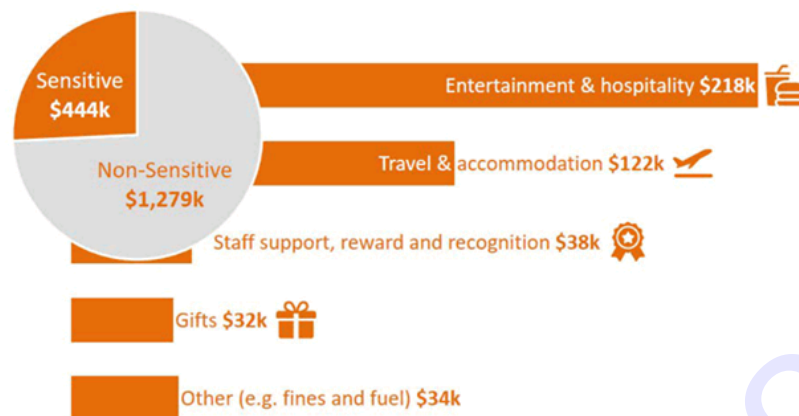


Figure 4: Sensitive expenditure



Source: data obtained by the Council and classified based on the expense description as determined by the relevant cardholder. We did not audit the accuracy of these descriptions.

This analysis shows that credit cards were mainly used for non-sensitive types of expenditure like materials and training. Sensitive spending is small, when compared to the Council's annual spend. As noted, there are risks associated with the use of credit cards. On this basis we considered it important to test some of these payments in this examination.

## 3 Audit mandate, objective and scope

### 3.1 Our mandate

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The Auditor-General conducted this examination under section 32(1)(a) of the *Public Finance and Audit Act 1987* (PFAA). This section allows the Auditor-General to examine the accounts of a publicly funded body and the efficiency, economy and cost-effectiveness of its activities.<sup>5</sup>

The PFAA is an Act to provide the examination of the degree of efficiency, economy and effectiveness with which public resources are used. Public resources include public money, assets, facilities and staff labour.

The Council is a publicly funded body under section 4 of the PFAA, which defines such a body to include a council constituted under the LG Act.

### 3.2 Our objective

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The examination objective was to determine whether the Council's credit cards were used and managed efficiently and economically.

### 3.3 What we examined and how

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We examined the Council's:

- credit cards were issued and used to promote and support its efficiency
- policies and procedures for the use and management of credit cards
- controls over credit card expenditure to ensure it was authorised and achieved the proper use of public money. This also included a review of policies which governed relevant expenses.

#### 3.3.1 Review of key controls and transactions

We tested 30 credit card transactions, with a total value of \$45,505, to determine whether:

- two key control activities were being performed effectively, namely the selected transactions were authorised and independently reviewed
- expenditure complied with policy or to identify gaps in policy
- expenditure was consistent with the proper use of public money.

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<sup>5</sup>The *Public Finance and Audit (Miscellaneous) Amendment Act 2018* came into operation on 13 September 2018 which amended section 32 of the PFAA to replace cost-effectiveness with effectiveness.

For the purpose of this examination and risks identified in section 2, we determined that the appropriate means of selecting these transactions was to select specific items from the total population of credit card expenditure incurred during the period examined. By our categories in section 2.2.2, seven were non-sensitive and 23 were sensitive type spending. This selection of 30 transactions is not intended to be a representative sample of the Council's total expenditure.

Refer to appendix 4 for a list of the credit card transactions reviewed.

### 3.3.2 Proper use of public money

We consider the proper use of public money is directly linked to efficiency and economy by way of definition and in the context of the PFAA. This has been our long-standing view and was expressed for example, in the Auditor-General's 2001-02 report on the examination of the McLaren Vale ambulance station<sup>6</sup>, the then Auditor-General reported:

*Procedures/processes of government that are contrary to law are not either efficient or economic in that, on discovery, unnecessary cost is incurred in implementing corrective measures.*

*In this context, the following commentary from the Report of the United Kingdom Committee of Public Accounts The Proper Conduct of Public Business is, in my opinion, relevant:*

*Some allege that the drive for economy and efficiency must be held back to some extent because of the need to take specific care with public money. Others argue that if economy and efficiency are to be forcibly pursued then traditional standards must be relaxed. We firmly reject both these claims. The first is often urged by those who do not want to accept the challenge of securing beneficial change. And the second is often put forward by those who do not want to be bothered to observe the right standards of public stewardship. Quite apart from the important moral and other aspects involved we consider that **any failure to respect and care for public money would be a most important cause of a decline in the efficiency of public business.** But there is no reason why a proper concern for the sensible conduct of public business and care for the honest handling of public money should not be combined with effective programmes for promoting economy and efficiency.*

In our view, the proper use of public money encompasses the principles of lawfulness, integrity, transparency, accountability and acting for the public benefit.

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<sup>6</sup>Auditor-General's Report pursuant to sections 32 and 36 of the Public Finance and Audit Act 1987: Matters associated with the 2001-02 proposal concerning the establishment of an ambulance station at McLaren Vale



To assess whether credit card expenditure was proper<sup>7</sup> use of public money, we considered established standards of proper and prudent expenditure practice and behaviour, including:

- the requirements of the LG Act (see section 2.1.2)
- Council policy
- generally accepted standards of proper and prudent expenditure practice and behaviour (see Appendix 3).

We determined that a financial delegate should carefully apply the following principles when exercising the power to spend public money:

- the **business purpose** of the expenditure was clearly justified at the time expenditure was incurred. Business purpose is where the expense is incurred for the Council to meet its objectives, deliver services to its community, perform its functions, spent within an approved budget and provides a public benefit
- it was **necessary** for the Council to incur the cost in performing its functions and that it achieved value for money
- the nature of the expenditure was **appropriate** for its intended purpose
- the expenditure decision was made **transparently** where the transaction record was correct, adequate and explained the expense
- the expenditure was incurred in accordance with relevant Council **policy** and was **authorised**. Where practical, the approval of sensitive expenditure, in the absence of policy or in unusual circumstances, should be given before the expenditure is incurred and the expenditure principles have been met.

Figure 5 Expenditure principles



<sup>7</sup> The Macquarie dictionary defines proper as appropriate to the purpose or circumstances; conforming to established standards of behaviour or manners

In our view, these expenditure principles align with key aspects of the LG Act and represent good practice when spending public money. We would expect any council to embed these principles in their daily operations, expenditure policies and decision-making processes.

We discussed the expenditure principles with the Council's then CEO at the commencement of the examination who acknowledged that they were reasonable.

We assessed the Council's records of the 30 selected credit card transactions against these expenditure principles to determine whether the Council had demonstrated the proper use of public money.

We undertook significant work in analysing these transactions given the absence of Council policy during the period examined. Our work involved gathering information from a selection of state government agencies and local government councils on their expenditure policies to have a better understanding of expenditure practices across these sectors to form a fair and balanced view.

The examination included a detailed review of documentation and discussions with relevant Council staff. During the examination, Council staff went to considerable effort to respond timely to our information requests and inquiries.

The examination covered the period from 1 July 2016 to 30 April 2018.

Consistent with procedural fairness principles, we provided the Council's CEO and Manager Finance the opportunity to provide comments for us to consider in finalising the Report. We have taken that feedback into account in preparing this Report.

### 3.4 What we did not examine

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We did not:

- examine the effectiveness of all the Council's controls over credit card transactions. The examination involved testing the effectiveness of specific controls to the extent it meets the examination sub-objectives
- confirm that the intended business purpose of the credit card expenditure was fulfilled
- examine the expenditure transactions which were processed through the Council's accounts payable system
- examine the budget preparation process to determine whether money was expended within an approved budget. Our examination was limited to confirming that the expenditure was included in the Council's budget at the cost-centre level
- examine the Council's compliance with tax reporting requirements, such as GST and FBT
- examine the compliance with new or revised expenditure policies which were effective after the period examined.

## 4 Credit card use supports efficiency

### What we found

Credit cards were issued to Council staff across the business units and to officers in senior management positions, including each Executive member.

Most cardholders used their cards frequently.

Overall, credit cards were used for its intended purpose where they were used for low value and high-volume transactions and minimal instances of transaction splitting. Further, credit cards were not used to pay suppliers under existing contract arrangements.

The Council does not undertake a formal and regular analysis of its overall credit card expenditure to ensure the credit card facility and practices continue to support its efficiency.

### What we recommended

The Council perform a formal and regular analysis of its credit card and accounts payable expenditure to:

- identify areas for further improvement in the use of its credit card facility and practices
- inform its procurement strategy.

### 4.1 Introduction

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Credit cards provide an efficient and convenient method to purchase and pay for goods and services. This purchase/pay method is efficient as it can save time and can reduce associated transaction and processing costs. It is an efficient tool when it is operating effectively to achieve its intended purpose. Credit cards are used to pay for low value and high-volume transactions which are authorised and for Council's business purpose.

### 4.2 Examination approach

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We assessed whether credit cards were issued and used to promote and support its efficiency. This involved analysing credit card data to determine:

- credit cards were issued to relevant Council staff
- the frequency of credit card use by credit cardholders
- credit cards were used for their intended purpose.

We also determined whether the Council undertakes a regular review of the credit card use and payments to support its efficiency.

## 4.3 Findings

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### 4.3.1 Improvements in analysis of credit card use and expenditure

#### Recommendation

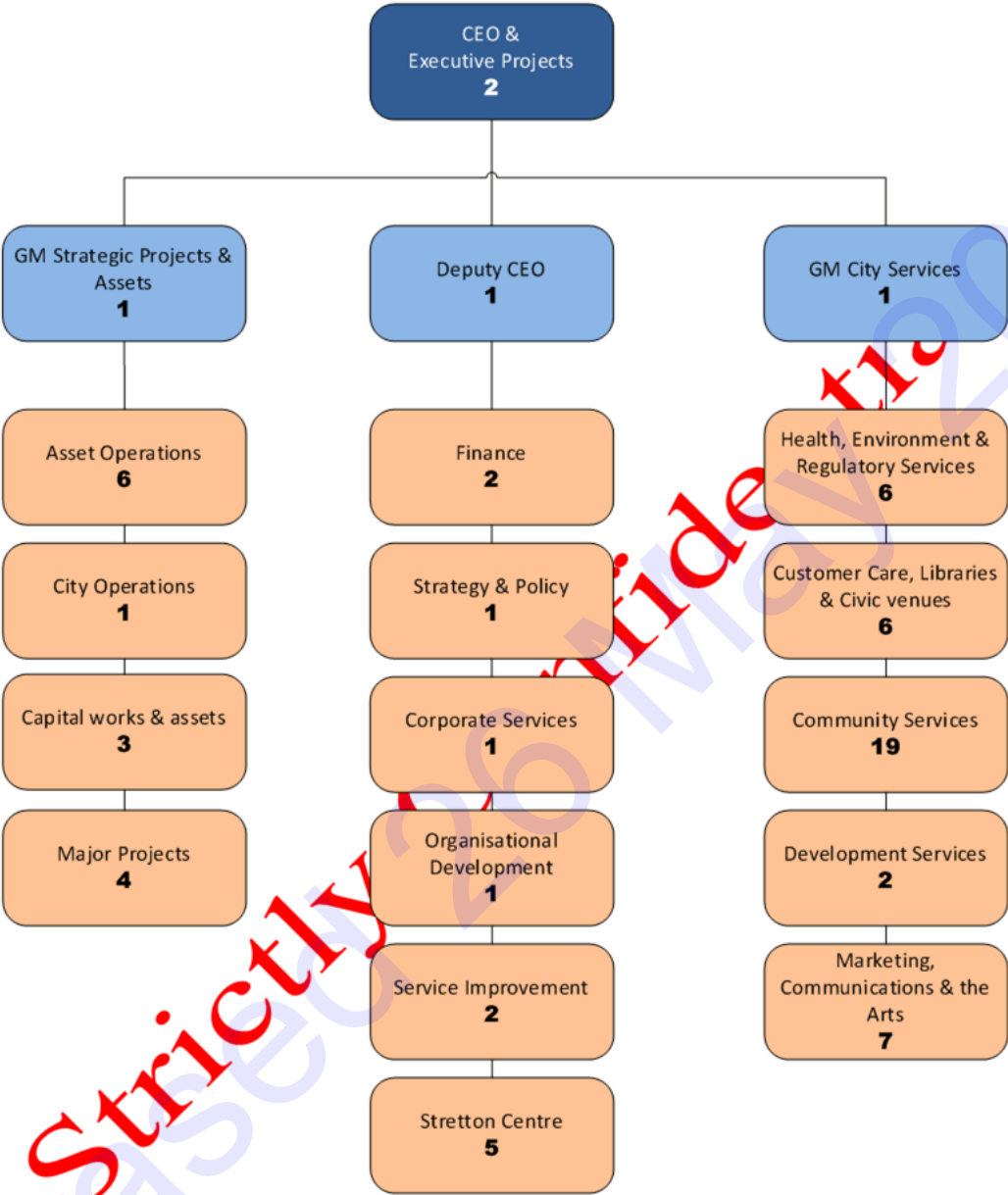
The Council perform a formal and regular analysis of its credit card and accounts payable expenditure to:

- identify areas for further improvement in the use of its credit card facility and practices
- inform its procurement strategy.

#### Finding

We found credit cards were issued to Council staff across the business units and to officers in senior management positions, including each Executive member. Figure 6 provides the number of credit cards issued across the Council as at April 2018.

Figure 6 Distribution of credit cards across the Council



We found that most cardholders used their cards frequently. At the time of this examination, the Council staff were undertaking a review of credit cards to identify those being used less frequently and determine whether the card was required.



Overall, credit cards were used for its intended purpose where they were used for low value and high-volume transactions and minimal instances of transaction splitting. Further, credit cards were not used to pay suppliers under existing contract arrangements

We found that the Council does not undertake a formal and regular analysis of its overall credit card expenditure to ensure the credit card facility and practices continue to support its efficiency. The analysis of credit card transaction data can identify:

- infrequent use of credit cards, including active cards that need to be cancelled because the cardholder has changed positions or no longer a Council employee
- breaches in policies, credit card limits and transaction splitting
- credit card transaction and monthly limits which are not appropriate for the cardholder to perform their role
- transactions which appear inappropriate or unusual
- key expenditure categories to better understand the use of credit cards
- transactions with suppliers outside the Council's existing contract arrangements
- suppliers where it may be more efficient and cost-effective to enter into contract arrangements.

The analysis should extend to accounts payable transactions to identify any low value and high value transactions where it may be more efficient to use a credit card.

An analysis of all expenditure data could also provide useful information about the Council's spend culture to assist in a review of its procurement strategy.

## 5 Credit card policy and procedures

### What we found

The Council adopted a revised credit card policy and guidelines in October 2018 which provide more direction and guidance on:

- the process to monitor, report and escalate breaches with policy
- the independent review of credit card transactions
- maintaining better records to explain the expenditure's purpose.

The Council's review of its credit card policy and procedures were overdue at the time we started the examination in May 2018.

The revised credit card policy and guideline could be further improved by including:

- the expenditure principles the cardholder is required to apply, and clearly evidence, to ensure proper use of public money
- a requirement to record the business purpose of sensitive expenditure transactions
- more direction to improve the independent review process.

### What we recommended

The Council consider and update its credit card policy and guidelines for the improvements we identified.

The Council reviews its policies, together with the relevant procedures, regularly and by its expected due date.

### 5.1 Introduction

Policies and procedures are important for maintaining good governance and effective practices. They are important because they, for example:

- guide staff to make appropriate expenditure decisions and overcome problems efficiently
- provide instruction on the expected behaviours in undertaking council activity to ensure consistent practices across the council and without constant management involvement
- allow management to better control events in advance and reduce the risk of costly mistakes and/or inappropriate expenditure.

Further commentary on the importance of policies and procedures is provided in our report on the examination of governance in local government.<sup>8</sup>

### 5.1.1 Relevant law

Section 49 of the LG Act requires a council to maintain procurement policies, practices and procedures to:

- obtain value in the expenditure of public money; and
- provide for ethical and fair treatment of participants; and
- ensure probity, accountability and transparency in procurement operations.

### 5.1.2 Council policy

The Council has established a policy for the use and management of credit cards. This policy is separate from the Council's procurement policy.

## 5.2 Examination approach

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We examined the Council's credit card policy and procedures dated February 2015. These were:

- current at the time of conducting the examination
- applied during the period examined (ie 1 July 2016 – 30 April 2018).

We assessed the policy and procedures to determine whether they:

- were current and regularly reviewed
- considered key elements of credit card use and management activities. These activities include issuing cards, cardholder's responsibilities, monitoring and review of credit card expenditure
- provided guidance on expected expenditure behaviours.

In assessing the Council's policies and procedures we considered standards of policy and practices accepted by universities and government organisations in Australia and New Zealand. Appendix 2 provides a list of some of the reports we considered to identify any gaps in or further possible improvements to Council policies.

Our examination identified areas the credit card policies and procedures could be improved. The Council adopted a revised credit card policy and guideline, dated 1 October 2018, before we had communicated our findings.

In completing the examination, we reviewed the revised policy and guideline only to determine whether the improvement areas we had initially identified had been addressed.

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<sup>8</sup> Report of the Auditor-General - Examination of governance in local government: February 2017, page 14

We did not examine the Council's policy framework or any other policies which are not referred to in this Report.

## 5.3 Findings

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### 5.3.1 Credit card policy and procedures were reviewed in October 2018

#### Recommendation

The Council review policies and procedures regularly and by its expected due date.

A policy and the relevant procedures/guidelines be reviewed at the same time.

#### Finding

The Council adopted a revised policy and procedure in October 2018. The Council's credit card policies and procedures, dated February 2015, recorded a next review date of February 2017 and February 2018, respectively. The review of these policies and procedures were overdue at the time we started the examination in May 2018. We also noted that there is a difference of a year between the review dates of the policy and procedure.

It is our view that when policies are reviewed, the relevant procedures/guidelines be reviewed at the same time to ensure practices and documented procedures are consistent with and support policy requirements.

### 5.3.2 Revised credit card policy and procedures could be further improved

#### Recommendation

The Council consider and update its credit card policy and guidelines for the improvements identified below and the recommendation made in section 5.3.3.

#### Finding

The credit card policy applies to all Council employees who have a Council credit card and who are involved in the management and governance of the credit card facility.

We noted that the revised credit card policy and procedures provide more direction and guidance on:

- the process to monitor, report and escalate breaches with policy
- the independent review of credit card transactions

- tax invoice attributes and the cardholders are required to get another copy where the original is lost
- recording the transaction details and purpose.

The revised credit card policy and procedures could be further improved by including:

- expenditure principles the cardholder is required to apply, and clearly evidence, to ensure proper use of public money
- a definition of business purpose
- a requirement for the cardholder to record the business purpose of the expenditure transaction on the reconciliation
- a requirement that the independent review of the transaction be undertaken by a person who did not benefit or perceived to benefit from the expenditure
- the purpose of approvals. For example, the direct manager approves the reconciliation, however it is not clear what this approval means
- a specific timeframe for completing the reconciliations. The revised guideline requires reconciliations to be completed by the due date but does not specify a date or timeframe. We found that overall the reconciliations were completed and reviewed within 30 days from the transaction date
- credit card reconciliations are required to be completed prior to termination of employment.



## 6 Specific controls over credit card expenditure

### What we found

#### Financial delegations

For the period examined, 2016-17 and 2017-18, the Council were unable to provide any formal instrument of sub-delegation made by the then CEO to council employees to expend funds within the approved annual budget for those years. As a result of the deficiency in the delegation process, we concluded that it was unclear whether the power to expend monies for expenditure incurred during the period examined was delegated in accordance with the LG Act.

In responding to this finding, in July 2019 the Council introduced changes to the delegation process to ensure controlled instruments of sub-delegations are in place and properly managed. We did not review this new process in detail as it came into effect after the examination period and after we had completed the examination work.

#### Independent review

Credit card transactions are being reviewed by a person other than the cardholder. We found the independent review was, in our view, not performed effectively for 14 of the transactions reviewed. The Council's revised credit card policy and guidelines, dated October 2018, provide clearer instructions on the independent reviewer's responsibilities.

#### Expenditure principles

Of the 30 credit card transactions, in our opinion, the reconciliation of 15 transactions did not clearly justify the business purpose of the expenditure at the time it was incurred. We considered that the reconciliation records supporting the expense were inadequate for many of the transactions we reviewed.

We were not satisfied that the Council staff had adequately explained the business benefit to the Council, and the public benefit, by incurring the expenditure for nine transactions. The Council were unable to provide records which explained the business purpose of expenditure for three transactions.

We were not satisfied that, for 17 transactions, the Council had demonstrated it was necessary to incur the expenditure in performing its functions and the benefit it provided to the public.

We noted the Council's revised credit card policy and guidelines requires the card holder to provide a suitable description and the purpose of the expenditure to assist the direct

manager (the independent reviewer) assess the validity of the transaction for Council purposes.

## What we recommended

### Financial delegations

The CEO's instrument of sub-delegations should provide a complete and accurate formal record of the financial delegations the CEO has sub-delegated.

The Council consider, as it decides future risk priorities, an internal audit or legal advisor review the delegation process and documents to ensure they are clear, complete and an accurate record of the delegations in accordance with the LG Act.

We consider better practice would be for sub-delegations to be clearly referenced to the relevant role position and not to the individual employee.

### Independent review

The Council perform a review of a sample of credit card transactions to ensure the independent review is operating effectively and in line with the new/revised policies and guidelines.

A suitable senior officer assess the Executive's credit card transactions against the expenditure principles and report any transactions which are or appear to be inappropriate or unusual to the Executive group.

The Council consider that its audit committee periodically receive and review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purpose. We consider this better practice which increases financial transparency, accountability and independent scrutiny.

### Expenditure principles

The Council update its relevant policies for the:

- expenditure principles that staff need to apply and clearly demonstrate at the time expenditure is incurred
- nature and extent of information needed to adequately justify the business purpose of the expenditure.

The Council maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and proper use of public money.

## 6.1 Introduction

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### 6.1.1 Relevant law

Section 125 of the LG Act requires a council to implement and maintain appropriate policies, practices and procedures of internal control to:

- assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives
- ensure adherence to management policies
- safeguard the council's assets
- secure the accuracy and reliability of council records.

Section 124 of the LG Act requires a council to keep accounting records that correctly and adequately record and explain its revenues, expenses, assets and liabilities.

Section 4 of the LG Act defines accounting records as all records and documents relevant to any receipt or payment of money, including working papers and other documents necessary to explain the methods and calculations by which statements and accounts are made up.

Section 137 of the LG Act allows the council to spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties.

Section 44 of the LG Act enables a council to delegate its powers or functions to a council employee. A delegation made to a council's CEO may be sub-delegated by the CEO. A council is required to maintain a separate record of all delegations under section 44 of the LG Act and review them at least once every financial year.

Section 101 of the LGA Act enables the CEO to delegate (or sub-delegate) a power of functions vested or conferred in or on the CEO under the LG Act.

Section 126 of the LG Act provides the functions of a council's audit committee which includes

*... reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.*

## 6.2 Examination approach

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We assessed whether the Council had implemented specific controls over credit card expenditure to ensure it was authorised and enabled the proper use of public money. Our examination focused on the following controls.

- cardholders had financial authority to spend money consistent with the Council's approved instrument delegations of authority
- cardholders reconciled the expenditure to documents which substantiated the purchase and were performed on time
- credit card reconciliations and transactions were independently reviewed
- correct and adequate records were maintained to explain the expenditure and demonstrate proper use of money.

We assessed 30 credit card transactions against the following expenditure principles to determine whether the Council had demonstrated proper use of public money.

We did this by reviewing the Council's records which supported the expenditure to determine whether:

- the **business purpose** of the expenditure was clearly justified at the time expenditure was incurred
- it was **necessary** for the Council to incur the cost in performing its functions and that it achieved value for money
- the nature of the expenditure was **appropriate** for its intended purpose
- the expenditure decision was made **transparently** where the transaction record was correct, adequate and explained the expense
- the expenditure was incurred in accordance with relevant Council **policy** and was **authorised**. The approval of sensitive expenditure should be given before the expenditure is incurred, where practical, and the expenditure principles have been met.

Refer to appendix 4 for the credit card transactions reviewed and summary of our assessment against the expenditure principles.

We sought to review any policies which covered specific expense types as part of testing the selected credit card transactions.

We also reviewed the Council's process in identifying instances of misuse to ensure they were resolved in accordance with the Council's policy and relevant legislative requirements.

## 6.3 Findings

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### 6.3.1 The then CEO's 2016-17 and 2017-18 sub-delegations to expend funds were deficient

#### Recommendation

The CEO's instrument of sub-delegations should provide a complete and accurate formal record of the financial delegations the CEO has sub-delegated.



The Council consider, as it decides future risk priorities, an internal audit or legal advisor review the delegation process and documents to ensure they are clear, complete and an accurate record of the delegations in accordance with the LG Act.

We consider better practice would be for sub-delegations to be clearly referenced to the relevant role position and not to the individual employee.

### Finding

The 2016-17 and 2017-18 instrument of delegations, which applied during the period examined, records the Council delegated the expenditure of funds, within the approved annual budget, to the then CEO. The then CEO, by instrument, sub-delegated this authority, as provided by s101 of the LGA, subject to conditions and limitation, to the following role positions:

- Senior manager finance
- Deputy CEO
- Manager finance and accounting.

The conditions and limitation specified in the then CEO's instrument of sub-delegations refers to a separate Limit of Authority Schedule maintained by finance. This schedule is an excel spreadsheet which:

- lists user profiles, authority limits and officers' names additional to the Senior manager finance, Deputy CEO and Manager finance and accounting positions
- is unclear whether any limitation operates over the named individual or role position.
- provides a monetary limit but does not explain whether it applies to a single or type of transaction and whether its exclusive of GST.
- could be changed without obtaining the CEO's approval.

This schedule, in our view, appears to be a register of intended financial sub-delegations rather than the formal instrument by which the sub-delegations were made by the then CEO.

The Council staff were unable to provide any formal instrument of sub-delegation made by the then CEO to the council employees other than the Senior manager finance, Deputy CEO and Manager finance and accounting positions to expend funds within the approved annual budget.

As a result of the deficiency in the delegation process from the use of the excel spreadsheet schedule, we concluded that it was unclear whether the power to expend monies for expenditure incurred during the period examined, except for expenditure approved by the CEO and the Senior manager finance, Deputy CEO and Manager finance and accounting positions listed above, was delegated in accordance with the LG Act. This uncertainty increases the risk of the delegation being ineffective because any action taken in reliance of the excel spreadsheet schedule (ie approving expenditure) beyond the explicit CEO



delegations would be unauthorised in that delegations were only specifically made to three positions other than the CEO.

The failure to ensure that formal, sufficiently specific and controlled instruments of delegation are in place and properly managed so that any changes update the formal instrument of delegations, is a serious control deficiency as Council officers may transact beyond their delegated authority.

As provided in our report on the examination of governance in local government<sup>[2]</sup>, delegations need to be made in accordance with the LG Act to reduce the risk of unauthorised transactions. The instrument of delegations and sub-delegations, in our view, should be a complete and accurate record of the authority approved by a council and sub-delegate, respectively, to ensure expenditure is appropriately authorised and for efficient and effective decision-making when spending public money.

In responding to our findings, in July 2019 the Council introduced changes to the delegation process to ensure controlled instruments of sub-delegations are in place and properly managed. We did not review this new process in detail as it came into effect after the examination period and after we had completed the examination work.

### 6.3.2 Deficiencies in the independent review of credit card expenditure

#### Recommendation

The Council reinforce to staff the importance of the independent reviewer's responsibility.

The Council perform an independent review of a sample of credit card transactions to ensure the independent review is operating effectively. The transactions may be selected randomly or target high-risk areas based on an analysis of credit card data maintained in the Council's credit card facility and for expenditure where the Council has implemented new/revised policies.

#### Finding

The independent review of credit card transactions is a strong control to detect credit card misuse and improper use of public money. This review is effective where the reviewer can exercise independent judgement. This means the reviewer is a person who:

- is not the cardholder
- is in a role senior to the cardholder so they have reasonable capacity to question transactions that appear inappropriate or unusual
- has reasonable knowledge of the cardholder's role and daily activities so they can identify transactions which are unusual to the cardholder's responsibilities and activities

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<sup>[2]</sup> Report of the Auditor-General – Examination of governance in local government: February 2017, page 18

- has a reasonable understanding of relevant expenditure policies and procedures
- has not benefited or perceived to have benefited from the expenditure.

The Council's credit card policy and guidelines dated February 2015, which applied during the period of examination, required direct managers to ensure the monthly reconciliation was completed, transaction documents were attached to the reconciliation, the total amount balanced to the statement and the account numbers were correct.

The finance staff also ensure the reconciliations were completed, the transactions were supported by tax invoices and account codes were correct. This review is to ensure records are correct and adequate to satisfy financial and tax reporting requirements.

Our review of 30 credit card transactions selected found that all transactions, but one, were reviewed by a person other than the cardholder.

We also found that the independent review of credit card expenditure was, in our view, not performed effectively for 14 transaction reviewed. This was because our assessment of the selected transactions against the expenditure principles found instances where the:

- business purpose was not clearly justified at the time expenditure was incurred
- expenditure was not supported by correct and/or adequate records
- expenditure was not always necessary and/or appropriate
- approval of the expenditure's purpose, where applicable, was not in writing.

Further details of these findings are provided in sections 6.3.4, 6.3.5 and 6.3.6. Appendix 5 provides examples of our assessment against the expenditure principles.

We noted the Council's revised credit card policy and guidelines provide clearer instructions on the card holder's and direct manager's responsibilities. The revised guideline requires the card holder to provide a suitable description of the expenditure and the purpose of the transaction to assist the direct manager (the independent reviewer) assess the validity of the transaction for Council purposes.

In two instances, the transaction of a senior manager was forwarded on by the relevant division's executive for review by the then CEO rather than the division executive. We note that while the CEO is a person senior to the cardholder, the review is generally more effective when performed by the cardholder's supervisor who has more reasonable knowledge of their staff's daily activities and detailed understanding of account codes and policy requirements.

### 6.3.3 Independent review of CEO's transactions could be improved

#### Recommendation

The Council update its credit card policy for the independent review of the Executives' credit card transactions.

A suitable senior officer assess the CEO's credit card transactions against the expenditure principles to ensure proper use of public money.

The Council's Executive Group receive and review a report from the suitable senior officer of any transactions which are or appear to be inappropriate or unusual to mitigate the actual and perceived risks with the misuse of credit cards and public money.

The Council consider that its audit committee periodically receive and review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purpose. We consider this better practice which increases financial transparency, accountability and independent scrutiny.

## Finding

The transactions tested included expenditure incurred by some Executive members. The credit card policy does not provide for the independent review of the Executive members' reconciliations.

We found that in practice the CEO's reconciliations were reviewed by the Mayor and a senior officer in the governance division. The CEO reviewed the Executive members' reconciliations.

Council staff advised the CEO's reconciliations are reviewed by the Mayor as someone senior to the CEO and the governance officer performs the manager's review. We found that the CEO's reconciliations record the Mayor's signature but did not explain the purpose of the Mayor's review.

We found instances where, in our view, the independent review of the CEO's transactions was ineffective. This was because:

- the involvement of the Mayor did not create reasonable capacity for staff to question the CEO's transactions that appeared inappropriate or unusual
- the Mayor may have benefited, or perceived to have benefited, from the expenditure and then not in the position to exercise independent judgement

We consider it necessary for the Council to identify a suitable senior officer who can exercise independent judgement when reviewing the Executives', including the CEO, credit card transactions. A suitable senior officer may be an internal audit manager or, in the absence of an internal audit function, the senior finance manager. The senior finance manager plays a key role in maintaining strong financial management and effective financial controls.

We noted that the revised credit card policy provides that the finance team will monitor credit card compliance and refer all breaches of the policies and guidelines to the Executive group. We believe this also creates a more effective capacity for staff to question transactions, including the Executive members' transactions, and for the finance team to report any transactions which are and appear to be in breach of policy to the Executive group.



We also consider better practice would be reporting the CEO's credit card expenditure to the Council's audit committee for independent review. This increases financial transparency and scrutiny and ensures that the Mayor is not involved in managing the Council's daily operations and affairs, which is the role of the CEO. We formed our view that this is better practice having regard to our review of practices in overseeing CEO expenses in other jurisdictions.<sup>9</sup>

#### 6.3.4 Business purpose was not clearly justified at the time expenditure was incurred

##### Recommendation

The Council update its relevant policies for:

- the expenditure principles staff need to apply and clearly demonstrate at the time expenditure is incurred
- the nature and extent of information needed to adequately justify the business purpose of the expenditure. This may include obtaining approval of sensitive expenditure before it is incurred.

##### Finding

We reviewed the reconciliation records which supported the 30 credit card transactions we tested.

Of the 30 credit card transactions, in our opinion, the reconciliation records of 15 transactions (50%) did not clearly justify the business purpose of the expenditure at the time it was incurred.

We made further inquiries with Council staff to explain the business purpose of the expenditure and provide relevant records (including applicable expenditure policies), that were available at the time expenditure was incurred, to support the expense.

Of the 15 transactions, the Council sought reimbursement from the relevant cardholder for three transactions as the business purpose of the expenditure was not clearly justified. The reimbursements were sought and paid for after we commenced our examination. These transactions were reimbursed 6 months to 2 years after the transaction date.

For the remaining 12 transactions, we found:

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<sup>9</sup> For example, Victorian Auditor-General's office, Fraud and corruption control – local government, June 2019; Frankston City Council, CEO and Directors' expense reimbursement policy, August 2017; Victoria Government, Health and human service guidelines for CEO and Executive business expense policy, September 2017.

- the Council staff were unable to provide records which explained the business purpose of the expenditure for three transactions. We discussed these transactions, where possible, with the relevant cardholder/independent reviewer. A representation was made by the relevant Council staff to explain the business purpose, however, without proper records it was still unclear as to whether the explanation provided supported the transaction in question. On this basis, we concluded that for these transactions the Council had not clearly demonstrated that the expenditure was for business purpose.
- for nine transactions we were not satisfied that the Council staff had adequately explained the business benefit to the Council, and the public benefit, by incurring the expenditure. On this basis, we concluded that for these transactions the Council had not clearly demonstrated that the expenditure was for business purposes. Most of these transactions related to entertainment and hospitality expenses. Further commentary on this is provided in section 7.

Further details of these findings are provided in Appendix 4.

Section 124 of the LG Act requires a council to maintain adequate records to correctly and adequately explain its expenses. If the Council does not maintain adequate records to support expenditure decisions, it is at risk of not being able to demonstrate, with confidence, that it has spent public money for Council business purposes and for the public benefit. This may then lead to loss of public trust in whether the Council always acts responsibly when spending public money. It is important, in our view, that the reconciliation record supporting the credit card expense provide a clear explanation of its business purpose, including references or a record of any prior approvals and policy requirements.

### 6.3.5 Not all expenses supported by adequate records

#### Recommendation

The Council maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and proper use of public money.

Any approvals to support the business purpose prior to expenditure which is outside an approved policy and/or perceived to be unusual or not common practice should be evidenced in writing, either a signature or in an email.

#### Finding

We reviewed the reconciliation records of the transactions tested to determine whether the record was adequate and correct to support the credit card expense. We found instances where:

- the transaction was not supported by a tax invoice, a requirement of the Council's credit card policy



- the approval for the purpose of the sensitive expenditure was not in writing. These transactions related to expenditure which is not common practice and there was no supporting Council policy
- the reconciliation record did not refer to other relevant records to support its business purpose. For example, prior approvals of the expenditure purpose, reference to the relevant Council policy, specific budget approvals.

We concluded that the reconciliation records supporting the expense were inadequate for many of the transactions we reviewed. While we have only tested 30 transactions, we consider this issue is important given the:

- sensitive nature of the expenditure
- absence of relevant expenditure policies which increases the risk of inappropriate expenditure behaviour and misuse of public money
- LG Act requires councils to maintain records which adequately explain expenses; expenses funded by public money.

In the Auditor-General's 2001-02 report on the examination of the McLaren Vale ambulance station<sup>10</sup>, the then Auditor-General reported:

*Procedures/processes of government that are contrary to law are not either efficient or economic in that, on discovery, unnecessary cost is incurred in implementing corrective measures.*

Inadequate record keeping increases the risk that the Council cannot explain its expenses with confidence; be held accountable for its expenditure and comply with its legal requirements (including tax reporting requirements (ie FBT, GST)).

The Council, in our view, is at risk of not being able to demonstrate, with transparency, the proper use of public money. In some instances, this risk has eventuated where transactions incurred by former employees were later reviewed by the Council and the records maintained were inadequate and did not clearly demonstrate the proper use of public money. The Council incurred further staff time and subsequent costs to take corrective action and recover these funds.

#### 6.3.6 The expenditure incurred was not always demonstrated as necessary and/or appropriate use of public money

#### Recommendation

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<sup>10</sup>Auditor-General's Report pursuant to sections 32 and 36 of the Public Finance and Audit Act 1987: Matters associated with the 2001-02 proposal concerning the establishment of an ambulance station at McLaren Vale

The Council update its relevant policies for the expenditure principles staff need to apply. This includes clearly demonstrating when expenditure was incurred that it was both necessary and appropriate.

### Finding

Of the 27<sup>11</sup> credit card transactions, we were not satisfied that, for 17 transactions, the Council had demonstrated that it was necessary to incur the expenditure in performing its functions and the benefit it provided to the public.

While five transactions were made in accordance with approved policy, we concluded that the Council incurred an additional cost for minimal or no benefit to either the Council and/or public.

The individual transaction amounts we tested were low value when compared to the Council's total expenditure. However, in our view, the Council is accountable for all expenditure it incurs.

It is important cardholders exercise and demonstrate proper judgement in applying the expenditure principles when spending public money. This includes considering alternative cost options to ensure value for money is achieved.

We also concluded that for 16 transactions, the nature of the sensitive expenditure may be considered inappropriate in the public's view when spending public money. For example: purchase of alcohol, providing gifts to staff for personal events. Sections 7 to 9 of this Report provides further commentary on specific sensitive expenditure types including our acknowledgement that this is an opinion and a subjective assessment.

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<sup>11</sup> This excludes the three transactions which were reimbursed.

## 7 Credit card payments – business expenses

### What we found

The Council adopted two new policies and guidelines to support travel and hospitality expenses, dated 1 October 2018, before we communicated our examination findings.

Our review of the selected credit card transactions for business expense items, found there was a need for the Council to have relevant policies and guidelines to govern these expenses.

We identified further areas of improvement that could be made to the new policies and procedures. For example, greater focus on the expenditure principles in the policy direction.

We were not satisfied that the business purposes for the hospitality expense transactions we reviewed were always clearly demonstrated and, in our view, was not always a necessary and/or appropriate use of public money.

It is our view that the following costs are not proper use of public money, other than in rare circumstances where the business purpose is clearly justified, purchase of:

- alcohol, unless for resale at official Council events
- coffee/lunch for off-site meetings between Council staff
- refreshments for celebratory events (eg birthday, farewells, Christmas).

We found credit cards were used to pay for gifts to contractors. We noted that the Council's revised hospitality policy, dated 1 October 2018, does not allow for gifts to suppliers, customers and other external stakeholders.

### What we recommended

The Council consider and update its travel and hospitality policies and guidelines for the improvements we identified.

In revising its expenditure policies, the Council should consider consulting with its community, and other key persons or groups, to better understand the public's expectations of acceptable expenditure behaviours.

The Council perform a review of its business expense transactions to ensure the new/revised policies and guidelines have been implemented and operating effectively.

## 7.1 Introduction

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Councils have a broad role and undertake many functions to provide for their communities as outlined in section 7 of the LG Act. Councils interact with representatives of community member groups, businesses and other tiers of government to perform its functions and achieve its objectives. This involves spending public money on business expenses which can be justified and considered reasonable work-related expenses incurred by staff in performing their official duties.

Credit cards are used to pay for business expenses, some of which we have been described as sensitive expenditure based on reporting through various jurisdictions. Business expenses such as travel, providing entertainment, hospitality and gifts in conducting council business and funded by public money, have been subject to specific public scrutiny.

Credit card use, because of its convenience, can also increase the risk of unauthorised and misuse and waste of public money. It is important the Council has appropriate policies governing this expenditure and controls to reduce these risks and to sustain public trust.

This section of the Report provides our examination findings of business expense transactions and the need for Council to have relevant policy guidance to govern these expenses.

## 7.2 Examination approach

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The Council did not have expenditure policies for its business expenses when we commenced our examination and during the period examined.

When we assessed 30 credit card transactions against the expenditure principles explained in section 3.3, we identified a need for the Council to develop relevant policy and procedures for the following business expense types:

- Staff travel and other costs while travelling (eg meals, accommodation)
- Entertainment and hospitality (including the provision and consumption of alcohol)
- Gifts.

The Council is committed to continuous improvement in the way it operates and, since we commenced our examination, advised us that it has made significant improvements in its administrative practices.

The Council adopted two new policies and guidelines to support travel and hospitality expenses, dated 1 October 2018, before we communicated our examination findings. In completing the examination, we reviewed these policies and guidelines to identify any further improvements. We did not assess whether the Council staff had complied with these new policies as they applied after the period examined.



## 7.3 Findings

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### 7.3.1 Policy guidance for business expenses could be further improved

#### Recommendation

The Council consider and update its travel and hospitality policies and guidelines for the improvements identified below.

In revising its expenditure policies, the Council should consider consulting with its community, and other key persons or groups, to better understand the public's expectations of acceptable expenditure behaviours. For example, the Onkaparinga Council surveyed its community in 2018 and considered the results when it developed new hospitality expenditure guidelines.

The Council perform a review of its business expense transactions to ensure the new/revised policies and guidelines have been implemented and operating effectively.

#### Finding

Policies for business expenses, in our view, should be based on principles which ensure the expenditure:

- demonstrates proper use of public money
- is the efficient and effective use of public resources
- is for the benefit of the Council's community.

Our review of the selected credit card transactions for the business expense items mentioned above found that:

- practices across the Council were inconsistent and some expenditure may not be considered acceptable expenditure behaviour by the Council and/or the public
- for some, there was, in our view, an inadequate record to explain the expenditure. The business purpose was not justified before or at the time the expenditure was incurred
- prior approval of the business purpose was not in writing
- for some, there was what we considered to be an inadequate record that the cardholder had assessed other cost-effective methods to ensure the amount spent was necessary and achieved value for money.

We also found that, for some credit card expenditure, the cardholder sought approval from an executive member prior to incurring the expenditure.

We expect that compliance with the new policies and guidelines, along with the improvements identified below, would address the matters raised above and in sections 6.3.4 to 6.3.6 and 7.3.2 to 7.3.4.

*Travel policy and guidelines*



We noted that the new travel policy and guidelines provide direction and guidance on the:

- management, approval and administrative arrangements. The policy requires employees, prior to travel, to provide a brief summary on the purpose of the travel which must be approved by the relevant General Manager.
- restrictions to enable proper and prudent expenditure behaviour. For example, the guidelines provide thresholds for accommodation and meal expenses; all eligible costs exclude alcoholic beverages
- requirement for exceptions to the policy which are escalated to the Executive for approval.

The new travel policy and procedures, in our view, could be further improved by including:

- a set timeframe of obtaining travel approvals in advance, where possible, to ensure the airfares and accommodation are not unreasonably high
- the travel application clearly explains the travel purpose in terms of the business purpose, the expected benefits to the Council and outcomes, and confirms it represents the most efficient and cost-effective way to achieve the Council's business outcomes (ie alternative arrangements have been considered)
- definitions for business purpose, travel diary
- international travel arrangements and policy on airline club memberships
- vehicle hire arrangements
- any necessary restrictions on incidentals and personal expenses such as mini-bar expenses and in-house movies
- requirements when employees undertake private travel while on official Council travel
- the approval of Executive members' travel purpose and arrangements.

#### *Hospitality policy and guidelines*

The Council has defined hospitality expenditure to include food, drinks, gifts and entertainment which are not covered by the travel and recognition of staff policies.

We noted that the new hospitality policy and guidelines provide direction and guidance on the:

- allowable and non-allowable hospitality expenditure
- conditions for catering meetings which only extends to basic sustenance as determined by the relevant manager
- reporting requirements
- requirements for exceptions to the policy which are escalated to the Executive for approval.

The new hospitality policy and procedures, in our view, could be further improved by including:

- as a matter of policy, require that any hospitality expenditure can only be incurred with reference to the Council's official functions and business purpose and demonstrates efficient and cost-effective use of public money. For example, when
  - building relationships with external parties to further the Council's objectives
  - representing the Council in an official capacity
  - building revenue
  - developing the organisation through training/planning sessions but being cost-effective
  - it is reasonable in terms of cost and community expectations.
- definition of business purpose/Council business/official functions
- an approval prior to the expenditure. The request is required to clearly explain the business purpose of the expenditure, who is attending the function/meeting, the expected benefits and outcome to the Council, a breakdown of the budgeted costs
- events where hospitality will be provided by the Council. For example: community events, a function to recognise the contribution of volunteers, when hosting an event attended by representatives of external groups/government. The policy on the provision of alcohol, at a reasonable cost, at these events and any specific requirements of Council employees attending (aligned with the Code of Conduct for Council Employees).

#### *Community expectations*

In recent years, some councils' expenditure behaviours have been subject to public criticism based on the nature of specific expenditure (ie what public money is spent on) which was not considered reasonable by the public. It is publicly known that the Onkaparinga Council has been subject to significant public criticism over its expenditure behaviours. While we have not examined the Onkaparinga Council's expenditure, we have sought to understand how it has responded to the public criticism.

To inform its decision on future practice, the Onkaparinga Council surveyed its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money. The Onkaparinga Council considered the survey results when it developed its new hospitality expenditure guidelines.

In a council agenda paper, a public document, the Onkaparinga Council highlighted any expenditure where the community sentiment did not align with its business practice. The Onkaparinga Council also explained why some business practices were important and that they would continue, but it would aim to minimise any associated costs (eg catering).

We consider that the Onkaparinga Council took appropriate action to seek, understand and consider its community's expectations on expenditure behaviours. It was then better informed of its community's expectations to respond accordingly and develop its policies. We did not review the Onkaparinga Council's revised expenditure policies and guidelines as part of this examination.

### 7.3.2 Travel expenses were not supported by adequate accounting records

#### Comment

The Council's new travel policy and guidelines, dated 1 October 2018, provides direction and guidance on the accounting records required to support travel expenditure.

In section 7.3.1 we recommended further changes to the travel policy and guidelines to improve the adequacy of accounting records.

#### Finding

Credit cards were used to pay for expenses incurred while Council staff and elected members travelled overseas and interstate. These expenses included flight costs, meals, accommodation and incidentals. We examined five travel related expenses.

We found that the credit card acquittal documentation for four transactions did not:

- evidence the prior approval for the travel
- explain the business purpose and expected benefits to the Council for the travel.

The Council staff were unable to provide any further records to support the request and approval to travel for three transactions. The Council staff advised that one transaction was verbally approved prior to travel and were unable to confirm prior approval for the other two.

We found the Council was unable to provide adequate records which demonstrated that:

- prior written approval for the travel was obtained
- the travel was for business purpose and the expected benefits to the Council
- alternative arrangements had been considered to ensure it was necessary to incur the expenditure and the arrangement value for money
- the expected total travel costs including flights, accommodation, meal and other related costs
- the benefits and outcomes of the travel, where applicable, had been reported.

Appendix 5, example 3 demonstrates a travel expense which was supported by correct and adequate records which explained the expenditure and its business purpose.

### 7.3.3 Entertainment and hospitality expenses not always proper use of public money

#### Comment

The Council's new hospitality policy and guidelines, dated 1 October 2018, provides direction and guidance on allowable and non-allowable hospitality expenditure.

## Finding

Credit cards were used to pay for entertainment and hospitality expenses such as coffee or lunch for meetings, refreshments for staff morning teas and Christmas lunch, alcohol, movie tickets, and catering for community events and programs.

We were not satisfied that the business purposes for these transactions were always clear and, in our view, was not always a necessary and/or appropriate use of public money. We believe that this was partly a result of lack of policy guidance on this type of expenditure. As noted, the Council now has such policy guidance.

It is our view that the following costs are not proper use of public money, other than in rare circumstances where the business purpose is clearly justified, purchase of:

- alcohol unless for resale at official Council events
- coffee/lunch for off-site meetings between Council staff
- refreshments for celebratory events (eg birthday, farewells, Christmas).

Appendix 4 provides details of transactions we concluded were not proper use of public money.

### 7.3.4 Gifts are not always proper use of public money

## Comment

The Council's new hospitality policy and guidelines, dated 1 October 2018, does not allow for gifts to suppliers, customers and other external stakeholders.

## Finding

It is reasonable a council would occasionally purchase gifts for business purpose. For example, it is customary practice to provide a gift to an international delegate or prizes for a community event/competition.

The key risks in providing gifts is that:<sup>12</sup>

- the amount or nature of the gift is excessive or/and inappropriate to the reason it's being given
- it is given with a perceived/actual expectation of a favour in return

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<sup>12</sup> New Zealand Controller and Auditor-General, Good practice guide: Controlling sensitive expenditure: Guidelines for public entities, February 2007



- it is given in substitution for legitimate payment or remuneration.

The Council did not have a gift policy during the period we examined. As noted, the Council now has such policy guidance.

Our analysis of the credit card transaction data found that credit cards were used to pay for gifts to elected members, staff and contractors. The transactions we examined included vouchers to an employee and gifts related to retirement, contractors, Christmas and Easter. Although some of these gifts were provided in accordance with the Council's Recognition of staff policy, some expenditure amounts were reimbursed in late 2018 while conducting our examination.

In the cases resulting in reimbursement the Council staff advised that they further investigated these payments and determined that they were not for business purpose. We assessed these transactions and concluded they were not proper use of public money. The Council has taken appropriate corrective action by seeking reimbursement for these costs.

The Council's new hospitality policy and guidelines, dated 1 October 2018, does not allow for gifts to suppliers, customers and other external stakeholders. This policy requires any exceptions to be escalated to the Executive for approval. The Council's Recognition of staff policy provides for staff gifts which is further discussed in section 8.



## 8 Credit card payments - reward and recognition expenses

### What we found

The Council adopted a revised employee recognition policy and guideline, dated 13 February 2019, before we had communicated our examination findings.

Our review of the selected credit card transactions found there was a need for the Council to review its recognition of staff policy and guidelines.

We were not satisfied that there was a clear link between the employee's contribution and high standard of performance in achieving the Council's objectives for all recognition programs (for example Christmas social functions). Further, the reason for the recognition is not, in our opinion, clearly aligned with the Council's business purpose.

We consider gifts and gift rewards to staff, other than in rare circumstances and where the business purpose is clearly justified, are not necessary or appropriate given that employees are remunerated for performing their roles in line with the relevant employment agreements.

### What we recommended

The Council review its employee recognition policy and guidelines with specific focus on staff performance and the expenditure principles.

## 8.1 Introduction

### 8.1.1 Relevant law

Section 99 of the LG Act provides for the role and functions of a council's CEO which includes to:

- manage the council's daily operations and affairs to achieve its strategic objectives
- give effect to the human resource management principles prescribed under section 107 of the LG Act and to apply proper management practices.

Section 107 of the LG Act requires a CEO to implement sound human resource management principles to ensure, for example, employees are given reasonable access to training and development, treated fairly and consistently and given regular reports on their performance.

### 8.1.2 Council policy

The Council has implemented a policy to recognise employees' achievements and contributions they make to the community and organisation. This policy also provides for events to support social interaction amongst staff to build and maintain a positive workplace culture.

The Recognition of staff policy, dated June 2010, applied for the period of examination (ie 1 July 2016 – 30 April 2018).

During the conduct of our examination, the Council revised this policy and adopted the Employee recognition policy and guideline, dated 13 February 2019.

We noted the revised policy and guideline provides:

- the recognition items which are allowable and those that are not specified in the policy and guidelines will not be at the Council's expense.
- a list of permitted gifts and events.
- specific items which are prohibited such as employee gifts, alcohol, vouchers, tickets to events, team drinks, team meals or morning/afternoon teas.
- a Christmas gift for employees, with more than three months of service, for a value up to \$50. The Executive is to review and approve the gifts.

We also noted that the following have been removed from the revised policy and guideline:

- the reward for recognition of five years of service
- movie passes as gift rewards
- gifts to employees for celebratory personal events, such as births, marriages and engagement
- recognition programs for team performance and individual outstanding service (such as programs recognising employees for leading the way, going the extra mile, working together, bright idea).

### 8.1.3 Relevant credit card expenditure

Of the 30 transactions we examined, seven payments related to expenditure incurred in accordance with the Recognition of staff policy, dated June 2010. The transactions we examined included annual Christmas function expenses and gifts to employees for retirement, Christmas and Easter.

This section of the Report also provides our examination findings of these transactions and supports our recommendation that the Council review its Employee Recognition policy and guidelines.

## 8.2 Examination approach

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We examined the Council's Recognition of staff policy and guidelines, dated June 2010. These were:

- current at the time of conducting the examination
- applied during the period examined (ie 1 July 2016 – 30 April 2018).

When we assessed the seven credit card transactions against the expenditure principles, as provided in section 3.3, we identified a need for the Council to review its recognition of staff policy and guidelines.

The Council adopted a revised employee recognition policy and guideline, dated 13 February 2019, before we had communicated our examination findings.

In completing the examination, we reviewed the revised policy and guideline only to determine whether the matters we initially identified had been addressed. We did not assess whether the Council staff had complied with the revised policy as it applied after the period examined.

### Principles relevant to employee recognition

We acknowledge the importance of staff recognition in workplaces. We also acknowledge that publicly funded workplaces need to be highly aware of justifying the use of public money for any purpose. For our examination we considered the principles outlined in:

- the State Australian Office for the Public Sector's Reward and Recognition good practice guide (SA recognition guide)
- the Ombudsman SA's Report on the investigation of HomeStart Finance dated 10 March 2017.

Like the Council, the South Australian Government strives to be a high performing sector that attracts, develops and retains a highly talented workforce, encourages innovation and continuous improvement, and focus on improving public value.

The SA recognition guide supports the recognition of employees' performance achievements and positive behaviours. The guide states:

*Employees who feel valued, encouraged and appreciated for the work that they do are more likely to be engaged, contribute effectively, work innovatively and perform highly in their roles.*

*Ultimately, comprehensive recognition ensures the attraction and retention of a quality workforce that is adaptable to change and dedicated to achieving results.*

This guide outlines core principles to consider when developing and implementing recognition strategies and programs. While this guide is not applicable to the local government sector, these core principles can apply to any entity, like the Council, which strives to be a high performing organisation. These core principles are consistent with the expenditure principles outlined in section 3.3.

It also notes that best practice research has highlighted that reward and recognition within the public sector can be highly complex.

This guide provides that a reward and recognition program does not have to be costly and gives examples which have no budget implication. It also highlights the following.

*The belief that remuneration (eg distributing cash bonuses or gift cards) is the best way to provide incentive to employees has often been popular with management. However, this approach is not always the best and only way to reward employees.*

*In the Public Sector, we are funded by the public purse and we need to look at innovative and alternative methods of reward.*

*Always remember that funding for recognition activities will be coming from the public purse. Consider how the administration of your reward will appear to taxpayers and whether it can be easily justified. To help you gain perspective on the possible implications of your chosen activity, consider how you would feel if it was to be published in the media.*

The Ombudsman SA reported that;

*... it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary...*

*...Whilst rewarding and recognising staff for their achievements, and creating a positive work environment are appropriate, I do not consider it is appropriate to do this with alcohol or gifts, particularly when suitable boundaries on when such gifts may be awarded are not in place.*

We assessed the Council's recognition of staff policy and guidelines against the following principles to determine whether it enabled proper use of public money.

*Aligned with business purpose*

The reason for the recognising the performance is aligned with business purpose where it contributes to achieving the Council's objectives. It also encourages behaviours which support the Council's values.

*Necessary and appropriate*



The expenditure is necessary for the Council to achieve its objectives.

The nature of the reward is appropriate and relevant to the performance or behaviour that is being recognised.

The value of the reward is modest or at no additional cost to the Council.

It is important the reward can be easily justified and reflects proper and prudent expenditure of public money.

*Fair and transparent*

The recognition programs are fair and apply to all employees. The recognition strategy is most effective when implemented at the time of the performance achievement. This reinforces the positive behaviours, continued motivation and encourages high standard of performance.

It is important the standards of performance being recognised are clearly defined and documented, recognised in line with policy and applied consistently across the Council to enhance fairness.

## 8.3 Findings

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### Recommendation

The Council review its employee recognition policy and guidelines with specific focus on staff performance. The Council consider the following in performing a review:

- to inform its decision on future practice, the Council survey its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information
- research the expected benefits to the council and its community from any proposed monetary recognition practices
- recognising staff for a high standard of performance to achieve council's objectives and delivery of services to the community
- clearly define the standards of high performance for each recognition program
- all recognition programs are aligned with the organisational objectives and values
- the reason for the recognition is clearly linked to Council's business purpose
- the nature of all rewards is appropriate and relevant to the performance or behaviour being recognised
- it is necessary to incur the cost and the value of all rewards is modest or at no additional cost to the Council and relevant to the performance or behaviour being recognised
- the total cost of the recognition programs is modest and withstands Parliamentary and public scrutiny.



The Council reconsider how it supports the staff social club to organise social events to minimise ratepayer cost.

### 8.3.1 Policy intent is not clearly aligned with business purpose

#### Finding

The Council's recognition programs provide for social events and gifts to staff to celebrate Christmas and achieving years of service milestones and support social interaction amongst staff.

Some recognition programs, in our view, are not clearly aligned with the business purpose and policy intent of recognising performance. In our opinion, the standard of performance being recognised would be higher than a satisfactory level given staff are already remunerated for performing their role.

We were not satisfied that there was a clear link between the employee's contribution and high standard of performance in achieving the Council's objectives for all recognition programs. Further, the reason for the recognition is not, in our opinion, clearly aligned with the Council's business purpose. The following are examples.

#### Personal events

The Council provides a gift to employees in support of personal events. The revised policy and guidelines limits these events to time of mourning. The reason for the reward is not in recognition of the employee's performance in achieving the Council's objectives.

We consider it appropriate for an entity to provide staff support for significant personal events. The nature of this support is generally provided by:

- the conditions of an employee's service, generally as specific leave entitlements.
- staff contributing their own money towards a gift to employees for personal events.

#### Christmas social functions

The Council sponsors a Christmas breakfast, a social event, for all staff. The guidelines also allow staff two hours paid time to attend a directorate or team Christmas lunch at the individual's expense.

The Council staff advised that the Christmas event for 2016 and 2017 cost about \$19,000 and \$13,000, respectively. The cost included food, drinks, entertainment, decorations and room set-up. The Christmas events were fully funded by public money.

The credit card transactions we tested included a \$810 payment for the hire of a photo booth for the 2017 Christmas event.

In our opinion there was not a clear business benefit obtained by the Council for the amount it budgeted and spent on the Christmas events in achieving its objectives and to perform its functions. We considered that the amounts incurred for entertainment, room set-up and decorations were unnecessary and inappropriate use of public money.

We were not satisfied that the Employee recognition policy and guidelines clearly identify the performance achievements being recognised by sponsoring an annual and general social event.

The SA recognition guide states recognition is most effective when it is specific and provided immediately after the performance achievements.

In our opinion these strategies are not consistent with the principles of reward and recognition but relate more to staff support. These events are typically organised and funded by an entity's social club, which are activities separate from the entity and not funded by public money.

The Council may decide to contribute to a social club event (either monetary or allow the use of Council facilities). Generally, it is our view that it is not necessary or appropriate to use public money to fund social events.

Where the Council makes a financial contribution to a social event or gift to an employee, it also exposes the Council to the risk of negative public and parliamentary scrutiny on its use of rate and taxpayer funds. It is imperative that it can clearly demonstrate that it has observed the expenditure principles outlined in section 3.3 and, without any doubt, its expenditure decision is able to withstand Parliamentary and public scrutiny.

### 8.3.2 Gift rewards not always necessary or appropriate

#### Finding

The Council's recognition programs include providing gift rewards to staff for the following reasons:

- A gift is provided to staff for Christmas.
- A charity donation or flowers up to the value of \$75 is provided to support staff in times of mourning.<sup>13</sup>

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<sup>13</sup> The previous policy provided a gift for other celebratory occasions such as engagements, births and marriages.

- A gift(s) to staff for every five years of service (commencing at 10 years of service). The gift is a \$50 - \$150 store voucher<sup>14</sup>. The value of the gift reward varies depending on the length of service.
- A staff member who retires after 25 years, or more, of service receives a retirement gift up to the value of \$250.

The SA Ombudsman's report on the investigation of HomeStart Finance<sup>15</sup> reported that,

*... it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary...*

*...Whilst rewarding and recognising staff for their achievements, and creating a positive work environment are appropriate, I do not consider it is appropriate to do this with alcohol or gifts ...*

Consistent with the SA Ombudsman's view, it is our view, remuneration derived from positions held by council staff should be considered as sufficient and appropriate monetary compensation for performing their duties. Our view is informed by the low tolerance of taxpayers and ratepayers to this type of public expenditure we have noted in the past. Accordingly, we consider gift rewards (movie passes, gift vouchers), other than in rare circumstances and where the business purpose is clearly justified, are not necessary or appropriate given that the employees are remunerated for performing their roles in line with the relevant employment agreements.

Further, the SA recognition guide outlines key considerations when providing reward and recognition which includes

*Keep the Code of Ethics in mind to ensure that your reward or recognition can be upheld, in particular, against the Professional Conduct Standards (eg the use of government/public resources, conflicts of interest and acceptance of gifts and benefits).*

### 8.3.3 The extent of the value of the loyalty of service rewards was considered unnecessary

#### Finding

The Council recognises the contribution made by Council employees by recognising their loyalty of service to the community and organisation. The guidelines provide the years of service entitlements for every five years of service, commencing at 10 years of service, and an employee departing the Council with 25 years or more with a satisfactory record.

<sup>14</sup> The previous policy provided gift vouchers to employees for specific outstanding service awards. This recognition program has not been included in the revised policy.

<sup>15</sup> Ombudsman SA, 'HomeStart Finance', 10 March 2017

The entitlements increase in value as the years of service increase. For example, \$60 is spent for 10 years of service, \$250 is spent for 25 years of service and every five-year anniversary thereafter (ie \$250 is spent at 30, 35, 40 etc years of service). The rewards include letters from the CEO/Manager, a day off with pay and/or a team morning/afternoon tea, certificate, \$50 - \$150 gift voucher, photo with plaque, engraved watch up to the value of \$250 (for employees who depart the organisation with 25 years or more service and a satisfactory record).

We acknowledge and support the importance of councils recognising employees' who are dedicated to their work and make long term contributions to achieving the council's objectives and providing services to its community. It is important the nature and value of the reward can be easily justified and demonstrably reasonable to the performance being recognised.

In our view, it is not necessary for the Council to incur all these costs in recognising an individual's years of service milestone. The Council should review the extent and frequency of the years of service being rewarded (ie every 5 years) and identify alternative rewards which have little to no additional cost to the ratepayer.



## 9 Credit card payments – elected members' benefits

### What we found

We examined three expenses incurred for the Elected members' 2017 Christmas lunch. The Council's Member and support policy and guidelines provides for special functions.

In our view, the Elected members' Christmas lunch and gifts are not consistent with the intent of section 77 and 78 of the LG Act in that the expenditure was not incurred as part of council members performing or discharging their official functions and duties.

In our view,

- the Christmas lunch was a social function where all persons who attended received a private benefit with little to no business benefit to the Council
- the Christmas gifts to the elected members was unnecessary and inappropriate use of public money.

In our opinion, these costs were not proper use of public money. Continuing this expenditure practice exposes the Council to risk of negative public and Parliamentary scrutiny on its use of rate and taxpayer funds.

### What we recommended

The Council revise its Mayor Support and Elected Member support policy and guidelines to remove the provision of special functions.

To inform its decision on future practice, the Council survey its community to understand the public's expectations of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information.

The Council's audit committee regularly scrutinise sensitive expenditure which results in benefits to the elected members to determine whether it is proper use of public money.

## 9.1 Introduction

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### 9.1.1 Relevant law



Section 77 of the LG Act provides a council member to be reimbursed for expenses incurred in performing or discharging official functions and duties. The expenses are of a kind prescribed and approved by the council (either specifically or under a policy which lapses at a general election of the council).

Section 78 of the LG Act enables a council to provide facilities and other forms of support to its elected members to assist them in performing or discharging official functions and duties. The provision of facilities and services are at the council's discretion subject to complying with the following requirements under section 78(2) where:

- (a) *The council must specifically resolve that the provision of the facilities or services is necessary or expedient to the performance of discharge of official functions or duties*
- (b) *Facilities and services must be available to members on a uniform basis...*
- (c) *Any property provided to a member remains the council's.*

Section 79 of the LG Act requires the council's CEO to keep a register of allowances and benefits for each elected member. This includes details of other benefits paid or payable to, or provided for the benefit of, the elected member.

The LG Act does not define the term benefit. LGASA's model policy on Council Members' Allowances and Benefits refers to the ordinary meaning of benefit which is something that is helpful or favourable. It also states:

*It is common for the Council to incur costs or pay for expenses (or provide a non-monetary benefit) for Council Members in the course of, or related to the performance of, the Council Member's role, functions or duties. Where the Council pays up-front for expenses that would otherwise be reimbursed, or provides Council Members with facilities or services that can be quantified for each Council Member, these are provided to Members for their "benefit"...*

*... It is a 'catch all' term (in addition to the terms 'allowances', 'reimbursement', 'facilities' and 'support') that constitutes expenditure by or on persons in public office made as a result of being a public official. Monies expended are public monies and there is a public interest element of accountability about recording where public monies are allocated and expended.*

### 9.1.2 Council policy

The Council's Council Member Support Policy and Guidelines, dated 26 July 2016, provides for the council members' allowances, support and expenses pursuant to section 77 of the LG Act. This policy applied during the period examined. This policy includes special functions where

*From time to time Council members and the Executive will have special functions, such as Christmas or staff functions, which will be arranged by the CEO in consultation with the Mayor.*

During the examination this policy lapsed due to the general election held in November 2018. On 18 December 2018 the Council adopted the following:

- Elected member support policy
- Elected member support policy guideline
- Mayor support policy guidelines.

### 9.1.3 Relevant credit card expenditure

Of the 30 transactions examined, four transactions related to expenditure incurred for the benefit of the elected members. These transactions were for a conference fee payment and the Elected members' 2017 Christmas function for food, drinks and gifts to the Mayor and Councillors.

Council staff advised that this expenditure is in accordance with the Council Member Support Policy and Guidelines.

## 9.2 Findings

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### 9.2.1 Expenditure for Elected members' lunch and gifts not proper use of public money

#### Recommendation

The Council revise its Mayor Support and Elected Members Support Policy Guidelines to remove the provision of special functions which we believe are not consistent with the intent of the LG Act. In doing so, to inform its decision on future practice, the Council survey its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information.

In future, the Council should, in our opinion, better explain the business purpose and business benefit to the Council prior to incurring the sensitive expenditure. The Council maintain adequate records to support this explanation.

The Council's audit committee regularly scrutinise sensitive expenditure which results in benefits to the elected members to determine whether it is proper use of public money.

#### Finding

We asked Council staff to:

- explain the business purpose of the expenditure and the benefit it provided to the Council in achieving its objectives and providing services to its community
- confirm whether the expenditure was incurred for the council members in performing or discharging their official functions and duties
- provide a list of people who attended the Elected members' lunch.

The Council staff advised the:

- intent of the policy was to provide support for council members in the discharge of their official duties
- policy enables from time to time Elected members and the Executive to have special functions, such as Christmas or staff functions, which will be arranged by the CEO in consultation with the Mayor
- then CEO approved a budget of \$3,000 for the Elected members' 2017 Christmas function
- special function is to recognise the efforts by the elected members in discharging their duties throughout the year
- special function is included in this policy to provide community visibility and enable the register of allowances and benefits to be complete.

A total of 26 people<sup>16</sup> attended the lunch which included elected members, executive members and their respective partners.

#### Business purpose was not justified

The Council staff advised that the elected members did not perform or discharge official functions and duties while attending the Christmas lunch.

In our view, the Elected members' Christmas lunch and gifts are not consistent with the intent of sections 77 and 78 of the LG Act in that the expenditure was not incurred as part of council members performing or discharging their official functions and duties. We concluded that the Council member support policy has not been implemented appropriately in support of the Elected members' Christmas lunch and gifts.

In our view, the Christmas lunch was a social function where all the persons who attended received a private benefit with little to no business benefit to the Council. While the expenditure was made in accordance with the Council's policy, in our opinion, the cost of the Elected members' Christmas lunch was not proper use of public money.

#### The expenditure was unnecessary and inappropriate

The elected members receive an allowance and the required support in performing or discharging their official functions and duties. The Council incurred additional cost with no

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<sup>16</sup> Not all invitees attended the lunch

additional business benefit to the Council. In our view, the Christmas gifts to the elected members was unnecessary and inappropriate use of public money.

#### Non-compliance with the policy

We found that the Council did not comply with its approved policy where the:

- Council paid for the cost of elected members' partners and executives and their partners to attend the lunch. The policy is to support the elected members
- policy does not provide for Christmas gifts to the elected members
- 2017 Christmas function and gifts were not disclosed in the register of allowances and benefits.

Overall, we concluded that the expenditure on the Elected members' Christmas lunch and gifts was improper use of public money. Continuing this expenditure practice exposes the Council to the risk of negative public and parliamentary scrutiny on its use of rate and taxpayer funds.



## Appendix 1 – Glossary of terms and acronyms

Term	Description
Accounting records	As defined in section 4(1) of the LG Act – all records and documents relevant to any receipt or payment of money and includes the working papers and other documents necessary to explain the methods and calculations by which statements and accounts are made up
Business expense	reasonable work-related expenses incurred by staff in performing their official duties <sup>17</sup>
Business purpose	where the expense is incurred for the Council to meet its objectives, deliver services to its community, spent within an approved budget and provides a public benefit.
Credit/Purchase card	some Councils refer to it as purchase card. In this report we have used the term credit card.
Hospitality	the provision of food, beverage, accommodation, transportation and other amenities at the entity's expense to persons not employed by the entity. <sup>18</sup>
	The provision of food and beverages <sup>19</sup>
LGASA	Local Government Association of South Australia
Official travel	Travel undertaken for the purpose of transacting and advancing the agency's business, and must only be undertaken where there is a demonstrated need <sup>20</sup>
Proper and prudent expenditure behaviour	identifying and managing conflicts of interest, being fair, honest and transparent and careful to avoid undesired consequences and being accountable for complying with organisational controls over expenditure <sup>21</sup>
Public money	Both ratepayer and taxpayer (government grant funding)
Sensitive expenditure	Expenditure by a council that could be reasonably considered to give some private benefit to an individual staff member or elected member that is additional to the business benefit to the council of the expenditure. It also includes expenditure by a council that could be considered unusual for its purpose and/or functions. <sup>22</sup>

<sup>17</sup> Guidelines for CEO and Executive Business Expense Policy, September 2017, Victoria State Government Health and Human Services

<sup>18</sup> VIC health guidelines

<sup>19</sup> Barossa Council Hospitality Policy, 19 December 2017

<sup>20</sup> Travel, Allowances and Expenses Policy, 12 September 2016, Australian Government's Australian Digital Health Agency

<sup>21</sup> NZ Audit office Good practice guide, Controlling sensitive expenditure: guidelines for public entities

<sup>22</sup> NZ Audit office Good practice guide, Controlling sensitive expenditure: guidelines for public entities



## Appendix 2 – Sensitive expenditure categories

We identified expenditure types of a sensitive nature by analysing the following reports prepared by universities and government organisations in Australia and New Zealand. We considered these to determine the common categories of sensitive expenditure which we applied to this examination.

Report	Expenditure category
New Zealand Controller and Auditor-General, Good practice guide: Controlling sensitive expenditure: Guidelines for public entities, February 2007 <sup>23</sup>	Travel and accommodation Entertainment and hospitality Goods and services – sale of surplus assets, loyalty reward scheme benefits, private use of entity assets Staff support and welfare – clothing, care of dependants, social club activities, farewells and retirements, staff sponsorship Other – gifts, donations, corporate boxes, communications technology
ACT Audit Office, Auditor-General's report, Report No.6/2016 Management and administration of credit cards by ACT government entities, June 2016	Examples of sensitive expenses include hospitality (flowers, gifts, alcohol) and communication equipment (mobile phones, pocket PC, phone cards)
Frankston City Council (VIC), CEO and Directors' expense reimbursement policy, August 2017	Communications equipment – mobile/smart phone, laptop/ipad/computer Meals and refreshments Training and education – events, conferences, formal study Memberships Travel Expenses not reimbursed include fines, donations/tips, gifts, hotel mini bar, room movies, alcohol, personal items (eg snacks, confectionery)
Victoria Government, Health and Human Service Guidelines for CEO and Executive Business Expense policy, September 2017	Travel and accommodation Meals and hospitality Alcohol Fines and penalties Loyalty program/award-based memberships
Tasmanian Audit Office, Report of the Auditor-General No. 4 of 2017-18: Use of	Entertainment

<sup>23</sup> Appendix 1 of the guidelines prepared by the New Zealand Controller and Auditor-General provides a list of reports covering aspects of sensitive expenditure

credit cards by councils' general managers and elected members, November 2017	Travel Gifts – staff, elected members and community members Personal transactions Fines Fuel On-line payment methods - PayPal
University of New South Wales, Business expense policy and procedure, November 2017	Travel and accommodation Entertainment (provision of food and drinks), gifts and awards Information technology equipment Other – donations, sponsorships, fines, clothing, subscriptions and memberships, coffee, personal items (snacks, confectionery)
The City of Unley (SA), Internal Audit report: use of purchase cards, July 2018	Entertainment – provision of food or drink (including alcohol) Gifts, rewards and recognition Personal transactions Fines On-line payment methods - PayPal
Victoria University of Wellington (NZ), Sensitive Expenditure Policy <sup>24</sup>	Alcohol Professional and club memberships Fines Gifts and tipping Information technology and equipment Tea and coffee Staff café meetings Travel Staff events including recognition of performance, farewells, Christmas and year end functions Events and hospitality

<sup>24</sup> Viewed on 19 February 2018 <<https://www.victoria.ac.nz/documents/policy/finance/sensitive-expenditure-policy.pdf>>

## Appendix 3 – Expenditure principles

We assessed whether credit card expenditure was proper use of public money against generally accepted standards of proper and prudent expenditure practice and behaviour. These standards were determined by analysing the following reports prepared by universities and government organisations in Australia and New Zealand. We found many organisations adopt a principle-based approach to ensure proper use of public money when making expenditure decisions, which are summarised below.

Report	Expenditure principles
New Zealand Controller and Auditor-General, Good practice guide: Controlling sensitive expenditure: Guidelines for public entities, February 2007	<p><i>The expenditure should be:</i></p> <ul style="list-style-type: none"> <li>• <i>subject to the standards of probity and financial prudence that are to be expected of a public entity, and</i></li> <li>• <i>able to withstand Parliamentary and public scrutiny.</i></li> </ul> <p><i>Those standards apply the principles that expenditure decisions:</i></p> <ul style="list-style-type: none"> <li>• <i>have a justifiable business purpose</i></li> <li>• <i>preserve impartiality</i></li> <li>• <i>are made with integrity</i></li> <li>• <i>are moderate and conservative, having regard to the circumstances</i></li> <li>• <i>are made transparently</i></li> <li>• <i>are appropriate in all respects.</i></li> </ul>
NSW Government Department of Trade and Investment (NSW), Hospitality and entertainment policy, April 2014	<p><i>Any expenditure by staff on official hospitality and/or entertainment must be in accordance with the following principles. The expense must:</i></p> <ul style="list-style-type: none"> <li>i. <i>be for official purposes only</i></li> <li>ii. <i>be properly documented</i></li> <li>iii. <i>generate direct benefits ... must result in, or be reasonable expected to contribute to, achieving the department's objectives ... and should not be used merely for social occasions</i></li> <li>iv. <i>be reasonable for the circumstances, and publicly defensible</i></li> <li>v. <i>be approved by a Manager with appropriate delegation in writing ... Where possible, approval should be obtained prior to incurring the expenditure ...</i></li> </ul>

Noosa Council (QLD), Council policy on entertainment and hospitality expenditure, August 2014	<p><i>Entertainment and hospitality expenditure will be considered appropriate if it meets the following criteria:</i></p> <ul style="list-style-type: none"> <li><i>• is considered reasonable and cost effective;</i></li> <li><i>• is can be supported by a specific approved budget allocation;</i></li> <li><i>• it is able to withstand public scrutiny;</i></li> <li><i>• it is for official purposes; and</i></li> <li><i>• it complies with legal, financial, audit and ethical requirements.</i></li> </ul>
ACT Audit Office, Auditor-General's report, Report No.6/2016 Management and administration of credit cards by ACT government entities, June 2016	<p><i>Key principles and considerations with hospitality are whether the:</i></p> <ul style="list-style-type: none"> <li><i>• people attending the event are predominantly from organisations other than those within the public sector;</i></li> <li><i>• primary purpose is for the government entity to establish or maintain a business relationship with external people and organisations; and</i></li> <li><i>• hospitality event is designed to progress government priorities and outcomes.</i></li> </ul>
Frankston City Council (VIC), CEO and Directors' expense reimbursement policy, August 2017	<p><i>The CEO and Directors are entitled to be reimbursed for reasonable out-of-pocket expenses incurred as a result of performing their Council duties and functions.</i></p> <p><i>Reimbursements can only be paid ... in relation to expenses actually and necessarily incurred in performing their Council duties and functions.</i></p> <p><i>... the CEO and Directors will maintain a conservative approach to the expenditure of public funds.</i></p>
Victoria Government, Health and Human Service Guidelines for CEO and Executive Business Expense policy, September 2017	<p><i>Health services should consider these principles when developing or updating their business expenditure policies and procedures:</i></p> <ul style="list-style-type: none"> <li><i>• Accountability ... seek to ensure value for money is achieved ... and subject themselves to appropriate scrutiny from relevant bodies by keeping an audit trail of documentation;</i></li> </ul>



	<ul style="list-style-type: none"> <li>• <i>Impartiality ... expenses should be based on merit and without bias and should be applied consistently and with fairness;</i></li> <li>• <i>Integrity ... should use public funds responsibly and ensure business expenses incurred support the objectives of the organisation in order to earn and sustain public trust.</i></li> </ul> <p><i>Business expenses must be all of the following factors:</i></p> <ol style="list-style-type: none"> <li>1. <i>be for the benefit of the health service;</i></li> <li>2. <i>be modest, appropriate and reasonable;</i></li> <li>3. <i>ensure value for money; and</i></li> <li>4. <i>be supported by the appropriate approvals and supporting documentation.</i></li> </ol>
Tasmanian Audit Office, Report of the Auditor-General No. 4 of 2017-18: Use of credit cards by councils' general managers and elected members, November 2017	<p><i>Cardholders, in the public sector, are also required to assess whether a transaction represents responsible use of public [sic public] funds at the time that the expenditure is incurred by confirming that the:</i></p> <ul style="list-style-type: none"> <li>• <i>amount spent is within the public entity's approved budget</i></li> <li>• <i>expenditure is necessary to exercise the public entity's powers or carry out its functions</i></li> <li>• <i>expenditure represents value for money...</i></li> </ul> <p><i>A contemporary credit card policy should incorporate the following controls ...</i></p> <p><i>... restricting credit card use to purchases consistent with the responsible expenditure of public funds, including ...</i></p> <ul style="list-style-type: none"> <li>• <i>prohibiting entertainment or if entertainment is allowed, establishing strong controls</i></li> <li>• <i>specifying limits for overnight accommodation, meals and incidental expenses, including whether alcoholic beverages are allowable</i></li> <li>• <i>prohibiting the use of credit cards to purchase gifts or providing guidance on what is an acceptable gift and maximum value</i></li> <li>• <i>restricting payments of travel expenses to staff and elected members only</i></li> </ul>



	<ul style="list-style-type: none"> <li>prohibiting minibar purchase, in-room movies and other similar expenses of private naturel</li> <li>prohibiting personal transactions ... and payment of fines.</li> </ul> <p>... requiring cardholders to provide an adequate description of transactions where their nature and use is not evident from the tax invoice.</p>
University of New South Wales, Credit card policy, November 2017	<p>All expenses must be for a legitimate University purpose, meaning they are reasonable and appropriate in the circumstances, and publicly defensible.</p>
University of New South Wales, Business expense policy, November 2017	<p>The expenditure must not be or perceived to be excessive and must meet the following characteristics:</p> <ul style="list-style-type: none"> <li>necessary to perform a valid business purpose fulfilling the mission of the University;</li> <li>reasonable in that the expense is not extreme or excessive, and reflects a prudent decision to incur the expense;</li> <li>appropriate in that the expense is suitable and fitting in the context of the valid business purpose; and</li> <li>allowable according to the terms of any federal regulation, sponsored contract or University policy.</li> </ul>
The Barossa Council, Hospitality policy, December 2017	<p>Hospitality expenditure must only be incurred where it has first been identified that providing the hospitality will facilitate the conduct of official council business and, if so, then the expenditure must be:</p> <ul style="list-style-type: none"> <li>reasonable in terms of cost and frequency, having regard to accepted community practice and expectations of the Barossa as a premium winemaking region;</li> <li>open, transparent and available for scrutiny by both internal and external audit processes; and</li> <li>applied in accordance with Council's Procurement Policy and delegated authorities which are made in accordance within the adopted budget.</li> </ul>

Victoria University of Wellington (NZ), Sensitive Expenditure Policy <sup>25</sup>	<p><i>The University expects all staff involved in arranging, making or approving sensitive expenditure:</i></p> <ul style="list-style-type: none"><li>i. <i>to do so only for University purposes;</i></li><li>ii. <i>to exercise prudence and professionalism;</i></li><li>iii. <i>not derive personal financial gain;</i></li><li>iv. <i>to act impartially;</i></li><li>v. <i>to ensure the expenditure is moderate and conservative in the context of the given situation;</i></li><li>vi. <i>to have read and adhered to relevant University policy.</i></li></ul>
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<sup>25</sup> Viewed on 19 February 2018 <<https://www.victoria.ac.nz/documents/policy/finance/sensitive-expenditure-policy.pdf>>

## Appendix 4 – Credit card transactions – summary of findings

Date	Expense Category	Expense Description	Supplier	Amount (\$)	Council Policy	Finding
<b>2016</b>						
18 Jul	Contractor – Other	Flights to Melbourne (2 People)	Webjet	1,887.32	No policy	 The Council clearly demonstrated proper use of public money.  We identified a need to improve reconciliation records to support the business purpose at the time expenditure was incurred.
18 Jul	Entertainment	Lunch Meeting with 1 external client	Restaurant	79.50	No policy	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified, the expenditure decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.
10 Aug	Telephones – Mobile	Mobile Phone Charges	Telstra	682.60	Not applicable	 The Council clearly demonstrated proper use of public money.  We identified a need to improve reconciliation records to support the business purpose at the time expenditure was incurred.
15 Sep	Entertainment	Day Spa Voucher	Adelaide Day Spa	559.00	No policy	 In our opinion, the purchase of a gift to paid staff for performing their role was not proper use of public money. The expenditure was subsequently reimbursed to the Council.
26 Oct	Materials – Food & Drink	Coffee meeting	Sydney restaurant	154.53	No policy	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified, the expenditure decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.
24 Nov	Contractor – Other	Christmas Party	The Reject Shop	273.00	Recognition of staff	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified at the time it was incurred and, in our opinion,

Date	Expense Category	Expense Description	Supplier	Amount (\$)	Council Policy	Finding
						it was not necessary to incur the cost in performing the Council's functions.
19 Dec	Contractor – Other	Vouchers	Store gift vouchers	400.00	Volunteer Management	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified at the time it was incurred, the expenditure decision was not transparent as the records did not adequately explain the expense, it was not made in accordance with Council policy and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.
<b>2017</b>						
21 Feb	Seminars/conference	Conference in Sydney	Park Hyatt Sydney	2,580.00	No policy	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified at the time it was incurred, and it was unclear whether it was necessary to incur the cost in performing the Council's functions.
24 Mar	Materials – Uniforms	Uniform	Sportsgirl	80.00	Corporate Uniform and Dress Image	 The Council clearly demonstrated proper use of public money.  We identified a need to improve reconciliation records to adequately explain the expense and its business purpose at the time it was incurred.
24 Apr	General Expenses	Traffic Infringement	SA Police	804.00	Motor Vehicle and Fleet	 The Council clearly demonstrated proper use of public money.  We identified a need to improve reconciliation records to support the business purpose at the time expenditure was incurred.
26 Apr	Entertainment	Watch – Retirement Gift	Bradford Exchange	249.95	Recognition of staff	 The Council did not clearly demonstrate proper use of public money. This was because, in our opinion, it was not necessary to incur the cost in performing the Council's functions.   In our opinion, the purchase of a gift to paid staff was not proper use of public money.



Date	Expense Category	Expense Description	Supplier	Amount (\$)	Council Policy	Finding
16 Jun	Entertainment	Movie Tickets Rewards & Recognition Program	Reading Entertainment	2,000.00	Recognition of staff	<p>⚠ The Council did not clearly demonstrate proper use of public money. This was because it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p> <p>✖ In our opinion, the purchase of a gift to paid staff was not proper use of public money.</p>
19 Jun	General Expenses	Donation	Beyond Blue	500.00	No policy	<p>✅ The Council clearly demonstrated proper use of public money.</p> <p>⚠ We identified a need to improve reconciliation records to support the business purpose at the time expenditure was incurred.</p>
e28 Jun	Training	Confidential Study Assistance	ATO	10,000.00	Study Assistance	<p>⚠ The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified at the time it was incurred, the expenditure decisions was not transparent as the records did not adequately explain the expense, it was not made in accordance with Council policy and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p>
27 Sep	Short Term Deposits LGFA	Vehicle Parts	Kennewell Pump Sales	4,000.00	Procurement	<p>✅ The Council clearly demonstrated proper use of public money.</p> <p>⚠ We identified a minor improvement needed to ensure the transaction was correctly recorded.</p>
16 Oct	Advertising	AFR Special Report	Fairfax Media Group	11,099.00	Procurement	<p>✅ The Council clearly demonstrated proper use of public money.</p>
22 Nov	Contractor – Other	Booth – All staff Christmas	In House Studios	810.90	Recognition of staff	<p>⚠ The Council did not demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified at the time it was incurred. In our opinion, it was not necessary and inappropriate to incur the cost in performing the Council's functions.</p>

Date	Expense Category	Expense Description	Supplier	Amount (\$)	Council Policy	Finding
4 Dec	Entertainment	Executive Christmas Lunch (9 Staff)	Restaurant	287.00	No policy	 In our opinion, lunch for celebratory events and the purchase of alcohol is not proper use of public money. The expenditure was subsequently reimbursed to the Council.
5 Dec	Materials – Food & Drink	Recognition of contractors going the extra mile	BWS Liquor	186.66	No policy	 In our opinion, the purchase of alcohol as a gift to paid contractors is not proper use of public money. The expenditure was subsequently reimbursed to the Council.
7 Dec	Materials – Food & Drink	All staff Xmas gifts	Lindt & Sprungli	109.00	No policy	 In our opinion, the purchase of a celebratory gift to paid staff was not proper use of public money.
8 Dec	Materials – General	Mayor Christmas gifts for Councillors – book	Council	225.00	No policy	 In our opinion, the purchase of a celebratory gift to elected members was not proper use of public money.
8 Dec	Materials – General	Christmas gift for Mayor from CEO & Executive members	Dan Murphy's	57.90	No policy	 In our opinion, the purchase of a celebratory gift to the mayor was not proper use of public money.
15 Dec	Materials – Food & Drink	Elected members' Christmas function food/drink	Adelaide winery	2,410.50	Members support	 In our opinion, the expenditure on the Elected members' christmas function was not proper use of public money.
15 Dec	Materials – General	Cruise & Lunch	Adelaide Cruises	450.00	Procurement	 The Council clearly demonstrated proper use of public money.  We identified a need to improve reconciliation records to adequately explain the expenditure's business purpose at the time it was incurred.
<b>2018</b>						
29 Jan	Materials – Food & Drink	Deposit for Catering	Caterer	2,000.00	Procurement	 The Council clearly demonstrated proper use of public money.
19 Mar	Contractors – Other	Chocolate for staff at Easter	The Reject Shop	200.00	No policy	 In our opinion, the purchase of a celebratory gift to paid staff was not proper use of public money.
3 Apr	Entertainment	Lunch with alcohol Farewell	Restaurant	272.60	No policy	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose

Date	Expense Category	Expense Description	Supplier	Amount (\$)	Council Policy	Finding
						<p>was not clearly justified, the expenditure decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p> <p>In our opinion, the purchase of alcohol for staff is not proper use of public money.</p>
4 Apr	Material – Food & Drinks	Staff morning tea	Foodland	76.02	No policy	<p> The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not clearly justified, the expenditure decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p>
6 Apr	Seminars/conference	ALGA conference registration	Australian LGA Deakin	1,954.00	Members Support	<p> The Council clearly demonstrated proper use of public money.</p>
11 Apr	Materials – Food Coop	Meat	Meat supplier	1,153.67	Procurement	<p> The Council clearly demonstrated proper use of public money.</p>

## Appendix 5 – Credit card expenditure - examples

### 1 Example 1 Hospitality

#### 1.1 Transaction details

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Credit card transaction				
Expense Category	Supplier Name	Expense Description	Date	\$
Materials – Food & Drink	Pony – The Rocks Sydney NSW	Coffee - meeting	26/10/16	154.53

#### 1.2 Transaction reconciliation records

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The expenditure was supported by a tax invoice for \$154.53. The tax invoice recorded that the expenditure was dinner for two people at the Pony Dining restaurant at The Rocks Centre in Sydney. Of the \$154.53, \$28 was spent on alcohol (18% of total bill).

The reconciliation records did not provide any further information (ie documents or written description) to justify that the dinner was for council business purpose. It also did not record who attended the meeting.

The credit card system recorded the transaction was independently reviewed by the then CEO on 2 December 2016.

#### 1.3 Discussions with Council staff

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We asked Council staff to explain the business purpose of the expenditure and to provide any further documents to support the transaction.

The cardholder was no longer a Council employee at the time of our examination.

The Council staff advised:

- a meeting was with an external party connected with Council business.

- there was no specific policy that governed this expenditure type. There was no policy for interstate travel by employees
- there was no prior approval for the expenditure.

After our further inquiries, the Council reviewed the transaction in more detail and advised:

- the external party was known to the cardholder from their previous employment
- it was a meeting with a developer regarding a potential development
- part of the senior marketing manager's role was to promote the council area and attract new business and development.

## 1.4 What we found

Our assessment of the transaction was based on a review of the Council's records which supported and explained the expenditure and discussions with the Council staff.

We found the cardholder was in Sydney to attend a conference at the time of incurring the dinner expense. Based on the conference details, the conference topic was consistent with the cardholder's role.

We found the Council staff were unable to provide records to support the prior request and approval for the travel. The Council was unable to clearly demonstrate the business benefit to the Council and that it was necessary for the Council to incur all the expenditure which included the meeting with the developer.

We found that the transaction records did not adequately explain the business purpose of the expenditure at the time it was incurred. It did not record who the meeting was held with, the purpose of the meeting and the business benefit to the Council.

In the absence of the cardholder and independent reviewer, the Council staff provided a representation that the transaction was for business purpose. However, without proper records it was still unclear as to whether the explanation provided supported the transaction in question. We concluded that it was unclear whether the meeting was for business purpose.

If the meeting was for business purpose, in our view:

- it was unnecessary for the Council to incur additional costs by paying for hospitality. The meeting could have taken place without the Council paying for the dinner.
- it was inappropriate for the Council to use public money to purchase alcohol.

The Council's practice of entertaining developers may compromise the integrity of its decision-making processes and relationship with the development sector. The Council should carefully consider the way it engages with the development sector to ensure Council staff behaviour does not influence or compromise potential and current development processes.



## 1.5 What we concluded

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We concluded that the Council had not clearly demonstrated that the meeting was for business purpose.

We concluded that the Council did not have adequate policies and procedures which govern travel, entertainment and hospitality expenditure during the period examined.

We concluded that the records did not adequately explain the expected business benefits to support that it was necessary and appropriate to pay for refreshments when meeting with an external party.

We concluded that it was unnecessary and inappropriate for the Council to pay for the dinner meeting in performing its functions. The meeting could have taken place without paying for the dinner. The cardholder received a private benefit with no additional business benefit to the Council.

On this basis, we concluded that the Council had not demonstrated the proper use of public money.

## 2 Example 2 Gift for staff

### 2.1 Transaction details

Credit card transaction				
Expense Category	Supplier Name	Expense Description	Date	\$
Entertainment	Temple day spa Unley SA	Day spa voucher	15/9/16	559

### 2.2 Transaction reconciliation records

The expenditure was supported by an order confirmation for \$559 for the purchase of one gift voucher for a day spa package. The order confirmation recorded a non-Council billing address.

The reconciliation records did not provide any further information (ie documents or written description) to justify that the gift voucher was for council business purpose. It also did not record the gift voucher recipient.

The credit card system recorded the transaction was independently reviewed by the then CEO.

### 2.3 Discussions with Council staff

We asked Council staff to explain the business purpose of the expenditure and to provide any further documents to support the transaction.

The cardholder and gift voucher recipient were no longer Council employees at the time of our examination.

The Council staff advised:

- the purpose of the voucher was to recognise the long hours worked by a Council employee
- the then CEO verbally agreed to the purpose prior to purchase
- there was no specific policy that governed this expenditure type

- they were unable to confirm when the additional hours were worked and whether the payment was paid in lieu of overtime
- it is not common practice to remunerate staff this way.

The Council staff contacted the former employee subsequent to our initial inquiries to obtain further information about the transaction.

The Council staff advised us on 30 January 2019 that the Council decided to seek reimbursement from the cardholder, a former employee. The Council was reimbursed in early November 2018, over two years after it was incurred. The reimbursement records did not explain why the reimbursement was sought.

## 2.4 What we found

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Our assessment of the transaction was based on a review of the Council's records which supported and explained the expenditure and discussions with the Council staff.

This transaction demonstrated that, while the Council implemented controls over credit card expenditure, they operated ineffectively. It also demonstrates the need for the Council to improve its controls over credit card expenditure.

We found:

- the purchase was not supported by an approved policy or practice
- in absence of an approved policy or practice, written approval for the purpose of the purchase was not obtained
- the independent reviewer was not the cardholder's manager
- there was no documented record that the independent reviewer questioned the purpose of the transaction and requested further information to be included on the reconciliation to justify business purpose
- there was no documented record finance staff questioned the transaction at the time they performed their review
- there was lack of record to support the Council staff's representation that the voucher was to recognise the long hours worked by a Council employee.

The Ombudsman SA's Report on the investigation of HomeStart Finance dated 10 March 2017 states

*whether the additional work performed is or is not within the employees' ordinary duties, it is widely accepted that public officers should not expect to receive anything other than their salary. In my view, public officers are also expected to avoid any perceptions of receiving anything more than their salary.*

## 2.5 What we concluded

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We concluded that, for this transaction, the independent review and finance staff's review were ineffective to question the validity of the transaction, detect the potential misuse of public money and take appropriate action.

We concluded that the Council had not clearly justified that the expenditure was for business purpose and it was necessary in performing its functions.

We concluded that the expenditure was not made transparently as the records did not adequately explain and support the business purpose of the expenditure.

We concluded that the expenditure was not incurred in accordance with documented Council policy, and common Council practices, and there was no record that it had been authorised prior to the expenditure being incurred.

Consistent with the Ombudsman SA's view, it is our view it is inappropriate to provide a Council employee a gift for the hours they have worked. Employee remuneration should be in accordance with the employee's employment conditions and the Council's applicable award agreements and human resource management policies.

On this basis, we concluded that the Council had not demonstrated the proper use of public money and took appropriate corrective action to seek reimbursement of the cost.

### 3 Example 3 Conference fees

#### 3.1 Transaction details

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Credit card transaction				
Expense Category	Supplier Name	Expense Description	Date	\$
Seminars / conferences	Australian LGA Deakin NSW	Cr Halls and mother registration 2018 ALGA conference	06/04/18	1,954

#### 3.2 Transaction reconciliation records

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The credit card transaction was supported by the tax invoice and the expense description recorded the purpose of the expenditure which was for a councillor to attend the 2018 Australian Local Government Association (ALGA) 2018 Conference.

#### 3.3 Discussions with Council staff

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We asked Council staff to explain the business purpose of the expenditure and to provide any further documents to support the transaction.

The Council staff advised:

- the business purpose was for an elected member to attend the ALGA conference on the Council's behalf
- the Council member support policy guidelines provide for Council members to attend the ALGA conference each year
- the elected members vote in a Council meeting and approve the attendance of the representative and agree for Council to pay
- the Councillor reimbursed the Council for their partner's cost.

#### 3.4 What we found

---

Our assessment of the transaction was based on a review of the Council's records which supported and explained the expenditure and discussions with the Council staff.



The expenditure was for a fee to attend the ALGA National General Assembly in Canberra. This assembly informs ongoing research and policy development and is an opportunity for Local Government to contribute to debate about Australia's future.

The Council meeting minutes of 27 February 2018 records the Council resolved for Councillor Halls and Councillor Musolino to attend the ALGA National General Assembly to be held in Canberra on 17-20 June 2018.

The expenditure was made in accordance with the Council's member and support policy where it states that

*Council Members' travel expenses to attend a conference or event as a representative of Council will be budgeted and arranged by the Mayor and Councillors Administration Officer.*

*the Mayor and a maximum of two Council Members may attend the ALGA National Conference.*

*Councils Members may choose to take a partner or family member with them when they attend ... interstate representation ... when it is appropriate to do so. The Council Member will be required to reimburse Council for any costs associated with the attendance of their partner ... at the event, including travel, accommodation and meals.*

We found that Councillor Halls reimbursed the Council for the travel and attendance costs of the family member.

The transaction was independently reviewed by the senior manager of corporate services and supported by correct and adequate records which explained the business purpose of the expenditure.

### 3.5 What we concluded

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We concluded that the:

- Council had clearly demonstrated that the conference fee was for business purpose
- expenditure was made in accordance with Council policy and authorised
- transaction was supported by correct and adequate records which explained the business purpose of the expenditure
- expenditure was necessary and appropriate in the Council performing its functions.

On this basis, we concluded that the Council had clearly demonstrated the proper use of public money.

## 4 Example 4 Training study assistance

### 4.1 Transaction details

Credit card transaction				
Expense Category	Supplier Name	Expense Description	Date	\$
Training	ATO	CONFIDENTIAL – Study Assistance	28/06/27	10,000

### 4.2 Transaction reconciliation records

The expenditure was supported by a University historical e-statement of account for two subjects, evidence of subjects completed on 8 June 2017, an approved study assistance application form and payment confirmation of \$10,054 on 27 June 2017 (\$10,000 payment plus \$54 credit card fee).

The reconciliation records did not provide any further information to justify that the training assistance was for Council's business purpose.

The study assistance application form was endorsed by the then CEO.

### 4.3 Discussions with Council staff

We asked Council staff to explain the business purpose of the expenditure and to provide the relevant Council policy.

The Council staff advised:

- the payment was for a specific program which was identified as professional development
- the relevant General Manager wanted to give the employee a bonus, which was endorsed by the then CEO, however they decided to facilitate the payment through a HECS repayment of \$10,000.
- the debt was already referred to HECS and there was no choice of payment supplier
- the reimbursement of fees of \$10,000 was supported by written approval by the relevant General Manager and endorsed by the then CEO.

The study assistance application form refers to the Council's Study Assistance Guidelines.

## 4.4 What we found

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Our assessment of the transaction was based on a review of the Council's records they provided to help support and explain the expenditure and also discussions with the Council staff.

The Study Assistance Guidelines provide employees study release or/and financial support for part-time study. The Council reimburses the employee for fees paid to the institution. The maximum of \$4,000 per calendar year is reimbursed for post graduate diplomas and degrees.

We found that the payment was not made in accordance with these guidelines where the amount paid, \$10,000, was greater than the maximum reimbursement provided in these guidelines and was not paid directly to the employee.

The Council staff advised:

- the payment was not made directly to the employee, on the direction of the relevant General Manager, which was approved by the then CEO. The Council staff were unable to provide us with a written record of this approval.
- there is no Council policy or practice to support the payment of bonuses to employees and no flexibility to adjust remuneration between position grades.
- the payment was made without the advice of the finance team. The finance team identified the payment when the annual FBT return was prepared. As a result, the payment was subject to FBT and reported on the employees Payment Summary.

## 4.5 What we concluded

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We concluded that the Council had not clearly justified that the expenditure was for business purpose and it was necessary in performing its functions.

We concluded that the expenditure was not made transparently as the records did not adequately explain and support the expenditure's business purpose and the decision to operate outside the established guidelines.

We concluded that the expenditure was not incurred in accordance with documented Council policy or practices.

On this basis, we concluded that the Council had not demonstrated the proper use of public money.

## City of Playford Credit Card Audit Report Management Response

**Prepared by**

Ninad Sinkar – Internal Auditor

**Submitted by**

Sam Green - CEO

October 2019

Released 26 May 2020

Contents

1. Overall General Council Opinion.....3

2. Executive Summary.....4

3. Background to the Audit .....7

4. Audit Observations .....10

Distribution	
<b>For action</b>	<b>For information</b>
Sam Green – CEO	Corporate Governance Committee Ms Grace Pelle – Acting GM, Strategy and Corporate



## 1. Overall General Council Opinion

Thank you for the opportunity to continue the process of feedback and review of the final draft report on the City of Playford's credit card usage. We have taken on this process with a considerable amount of due diligence and care inclusive of utilising the services of Council's newly appointed Internal Auditor who has provided expertise and insight into the report presented for consideration. In order to provide an appropriate response to the findings and recommendations in this audit report, we have made a note of the key deficiencies in the overall audit process. These deficiencies were previously communicated to the Auditor General via letters dated 23 July 2019 and 16 August 2019, in addition to feedback provided at various face-to-face meetings with the Audit team. The draft report was also provided to the City of Playford, Corporate Governance Committee for review and feedback. The Committee recommended that the report be rewritten and a copy be provided to the Auditor General, for discussion.

We have rewritten the findings and general observations in a reader friendly manner and provided our management response. Deficiencies noted in the audit process and the audit report:

1. The scope of the examination as communicated to Council in May 2018, suggested a fair and balanced assessment would be undertaken of the efficiency and economy of credit card usage. However, it seems to the reader that 30 transactions (out of 11,500 during the audit period) are utilised as a 'representative' sample. The Auditor General has acknowledged that these 30 transactions have been selected in a targeted fashion, using subjective criteria not identified in the examination scope.
2. The Auditor General has provided insufficient reasoning for using a non-representative sample. This does not fit in with the objective of credit cards being used and managed efficiently and economically. It ignores the weighting for non-sensitive spend. A total spend of 0.1% of total Council spend would not be significant enough to warrant the Auditor General to form a conclusion of extravagant and/or wasteful use of Council funds.
3. The overwhelming focus of the report is to draw organisation-wide conclusions based on a skewed, unrepresentative sample of transactions. There is inadequate context provided - specifically that the majority of the transactions were approximately 3 years ago and since this time there have been significant improvements in Council's practices as a result of Council's commitment to continuous improvement
4. The audit report does not state the facts and tends to deviate from the actual scope of the audit. This report reads more like an advisory report. This is evidenced by sentences like "maybe considered inappropriate in public view" which is very speculative in nature and not based on facts/figures.
5. The report outlines a number of 'Findings'. 'Findings' in an audit sense would be based on facts. Many of the 'Findings' in the report are opinion based and should be referred to as such rather than being positioned as definitive in nature. Commentary is not clear on where expenditure was within policy or where it was made where a policy did not exist.
6. The report contains statements about value for money and public perceptions about Council expenditure. Decisions about how the Council expends its funds are ultimately matters of Council policy. The LG Act clearly gives the Council wide power to spend its funds as it sees fit.
7. The Auditor General has not conducted the testing of effectiveness of all of the controls over credit card transactions. Without confirming that the business purpose for the credit card expenditure was/was not fulfilled, certain elements of the audit report can only be considered as incomplete with findings that are deficient and not factual.
8. The draft report provided by the Auditor General was written in a very complex manner. The Council management had difficulty in reading, following and understanding the issues. The Council had to invest substantial time to seek clarification and response to the draft report. The overall audit process lacked detailed planning, no audit plan (or timeline of activities) was provided to the Council (despite repeated requests). This has prolonged the time taken to complete the audit. The Council has invested significant

time and resources for providing information/data/documents during the audit. We estimate time taken to be in excess of 1600 hours and \$130,000.

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## 2. Executive Summary

### Objective

The Auditor-General conducted this examination under section 32(1) (a) of the Public Finance and Audit Act 1987 (PFAA). This section allows the Auditor-General to examine the accounts of a publicly funded body and the efficiency, economy and cost-effectiveness of its activities. The Council is a publicly funded body under section 4 of the PFAA, which defines such a body to include a council constituted under the LG Act.

The examination objective was to determine whether the Council's credit cards were used and managed efficiently and economically.

### Scope

The scope of the Council's credit card audit was to consider the following:

1. Council's policies and procedures for the use and management of credit cards
2. Controls over credit card expenditure to ensure it was authorised and achieved the proper use of public money. This also included a review of policies governing relevant expenses.
3. Use of credit cards to promote and support the Council's efficiency.

### Key Clauses from the Local Government act, applicable to this audit

The LG Act establishes the powers and functions of a council and a CEO. Generally, a council has the power to do anything necessary to perform or discharge its functions or duties or to achieve its objectives (section 36 of the LG Act).

Accordingly, section 137 the LG Act allows the council to spend its funds as it thinks fit in the exercise, performance or discharge of its powers, functions and duties. In performing its role and functions, a council must observe principles provided in section 8 of the LG Act which include, to:

- manage its operations and affairs in a manner that emphasises the importance of service to the community,
- seek to ensure that its resources are used fairly, effectively and efficiently,
- achieve and maintain standards of good public administration; and
- ensure the sustainability of the council's long-term financial position and performance.

These principles are embedded in various provisions of the LG Act as follows and applicable to this examination.

Section 49 of the LG Act requires a council to maintain procurement policies, practices and procedures to:

- obtain value in the expenditure of public money,
- provide for ethical and fair treatment of participants; and
- ensure probity, accountability and transparency in procurement operations.

Section 124 of the LG Act requires a council to keep accounting records that correctly and adequately record and explain its revenues, expenses, assets and liabilities.

Section 44 of the LG Act enables a council to delegate its powers or functions to a council employee. It also enables the council's CEO to sub-delegate his/her delegated power. A council is required to maintain a separate record of all delegations under section 44 of the LG Act and review them at least once every financial year.

## Testing Methodology

During the audit, we reviewed 30 credit card transactions, with a total value of \$45,505, to determine whether:

- two key control activities were being performed effectively, namely the selected transactions were authorised and independently reviewed
- expenditure complied with policy or to identify gaps in policy
- expenditure was consistent with the proper use of public money.

## Scope Exclusion

For the purpose of this audit, we did not:

- examine the effectiveness of all the Council's controls over credit card transactions. The examination involved testing the effectiveness of specific controls to the extent it meets the examination sub-objectives,
- confirm that the intended business purpose of the credit card expenditure was fulfilled,
- examine the expenditure transactions which were processed through the Council's accounts payable system,
- examine the budget preparation process to determine whether money was expended within an approved budget. Our examination was limited to confirming that the expenditure was included in the Council's budget at the cost-centre level,
- examine the Council's compliance with tax reporting requirements, such as GST and FBT; and
- examine the compliance with new or revised expenditure policies, which were effective after the period examined.

## Report findings and general observations

The findings and general observations raised, were discussed with the CEO and the Acting GM- Strategy and Corporate. They have reviewed the findings and have agreed action plans to address the recommendations, wherever applicable.

This report also includes any observations and comments where the Council has initiated actions and implemented corrective strategies.

Number of performance improvement observations (PIO)	Number of general observations
6	3

## Summary of performance improvement observations (PIO) and general observations (GO)

Ref #	PIO/GO	Description	Issue Owner	Cross Reference to Auditor General report		
				Page #	Recommendation #	Section #
#4.1	PIO	Opportunity for improving the process for analysing the credit card use and expenditure	CEO	8	1	4.3.1
#4.2	PIO	Policies and procedures for credit card payments need to be updated	CEO	8	2 & 3	5.3.1 & 5.3.2
#4.3	PIO	The CEO's 2016-17 and 2017-18 sub-delegations to expend funds need to be reviewed and updated	CEO	9	4	6.3.1
#4.4	PIO	Opportunity to improve the independent review process for credit card expenditure	CEO	9	5, 6 & 7	6.3.2 & 6.3.3
#4.5	PIO	Inadequate records maintained for credit card transactions	CEO	9	8 & 9	6.3.4 & 6.3.5
#4.6	GO	Reassess the credit card expenditure policies and procedures with respect to principles of use of public money	CEO	9	8	6.3.6
#4.7	PIO	Opportunity to further improve the policies and processes relating to credit card expenses	CEO	9	10,11 & 12	7.3.1
#4.8	GO	Realign the business policies to reflect the business purpose	CEO	9	13	8.3.1
#4.9	GO	Reconsider expenditure for Council members' lunch and gifts	CEO	9	14,15 & 16	9.2.1



### 3. Background to the Audit

#### City of Playford overview

The City of Playford (the Council) is responsible for managing its local area of 345 km<sup>2</sup> with a population of over 90,000 and is a fast-growing outer metropolitan area. It provides a range of services, facilities and programs to its community, which include:

- local roads, footpaths and drainage
- waste collection and recycling management
- library and information services
- recreation, sporting and cultural activities.

The Council reported operating surpluses of \$8.8 million and \$3.7 million in 2016-17 and 2017-18, respectively. The figures 1 and 2 below show the Council's sources of income and expenditure incurred to deliver services to its community over the past two financial years.

Figure 1: Sources of income and expenditure incurred in 2016-17

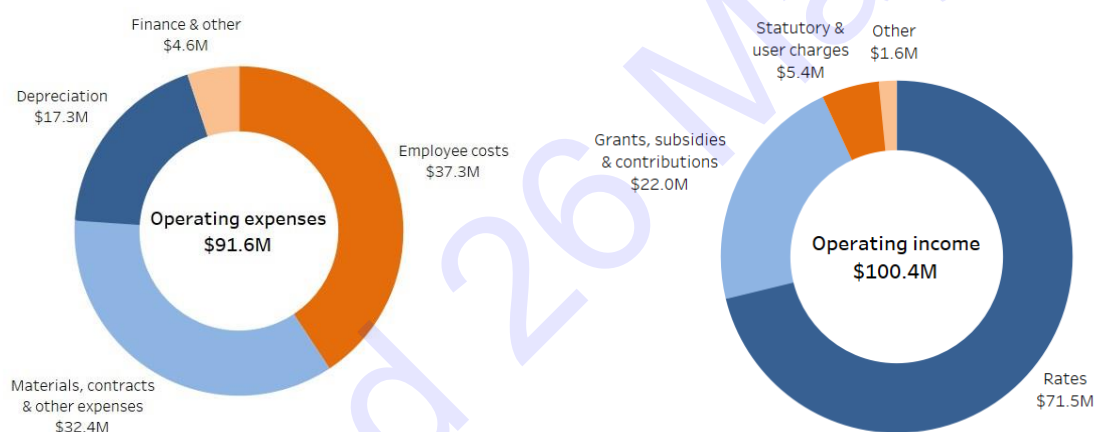
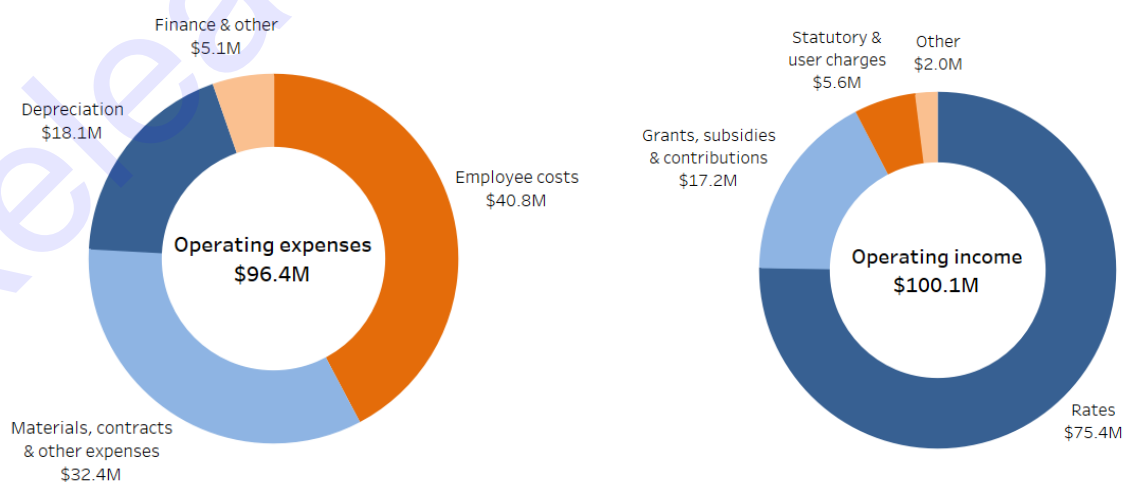


Figure 2: Sources of income and expenditure incurred in 2017-18



## Credit card overview

### Benefits and costs of credit card use

A credit card is an efficient and convenient tool to use when spending public money for high volume and low value goods and services. Credit card use can also increase the risk of unauthorised transactions (e.g. intentional/unintentional use for personal items, cash withdrawals) and misuse and waste of public money. These risks must be managed effectively, for a council to avoid probity issues, reputational harm and loss of public trust that the council is acting responsibly and for the public benefit. The loss in public trust may have a detrimental impact on the council's ability to perform its functions efficiently and effectively. It may, for example:

- compromise the council's ability to attract new businesses to the area,
- involve significant cost to restore and sustain public trust; and
- have a negative impact on the council's culture and staff morale.

It is imperative a council, like other public sector entities, can always demonstrate proper and prudent expenditure behaviour when spending public money that meets legislative requirements, withstands Parliamentary and public scrutiny and maintain public trust in the council.

Councils in South Australia are established and governed by the LG Act. The LG Act has requirements for administration and financial accountability that establishes a governance and management framework. This framework integrates the roles and functions of a council, as a body corporate, Councillors, as members of a council's governing body, and the CEO, as the person responsible for the executive management of the council.

This framework is directed towards ensuring the sustainability of councils and focuses on achieving their development objectives and their provision of services to the community. It obliges a council to provide assurance that their decisions and actions support the achievement of a council's objectives across its different functions.

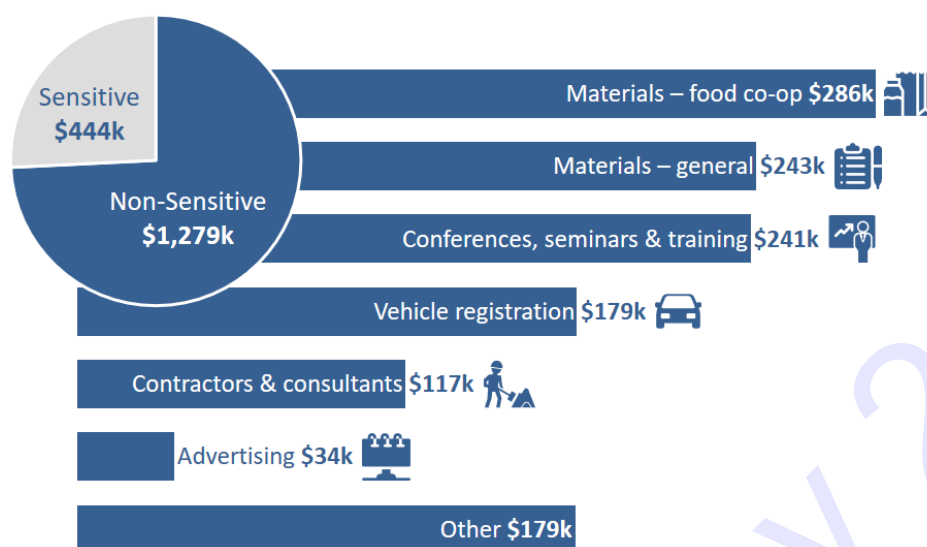
### Credit card use and expenditure

The following shows a summary of the Council's credit card use and expenditure for the examination period (1 July 2016 – 30 April 2018).

Cardholders	Transactions	Total Charges
88	11,555	\$1.7 million

We note that the total amount of \$1.7 million charged on credit cards, over a 22-month period, is relatively small (5% of the total spend) when compared to the annual amount spent on material, contracts and other expenses of \$32 million per year.

Figures 3 and 4 shows the Council's main credit card expenditure categories over the period examined.



**Figure 4: Sensitive**



Source: data obtained by the Council and classified based on the expense description as determined by the

## 4. Audit Observations

### #4.1 Opportunity for improving the process for analysing the credit card use and expenditure

Performance Improvement  
Opportunity

Ref to Auditor General report  
section- 4.3.1

#### Finding(s)

During the audit, we noted that corporate credit cards were issued to Council staff across the business units and to officers in senior management positions, including each Executive member.

We found that most cardholders used their cards frequently. At the time of this examination, the Council staff were undertaking a review of credit cards to identify those being used less frequently and determine whether the card was required.

We noted that the Council does not undertake a formal and regular analysis of its overall credit card expenditure to ensure the credit card facility and practices continue to support its efficiency.

The analysis of credit card transaction data can identify:

- infrequent use of credit cards, including active cards that need to be cancelled because the cardholder has changed positions or no longer a Council employee,
- breaches in policies, credit card limits and transaction splitting,
- credit card transaction and monthly limits which are not appropriate for the cardholder to perform their role,
- transactions which appear inappropriate or unusual,
- key expenditure categories to better understand the use of credit cards,
- transactions with suppliers outside the Council's existing contract arrangements; and
- suppliers where it may be more efficient and cost-effective to enter into contract arrangements.

The analysis should extend to accounts payable transactions to identify any low value and high value transactions where it may be more efficient to use a credit card.

An analysis of all expenditure data could also provide useful information about the Council's spend culture to assist in a review of its procurement strategy.

#### Recommendation # 1

Auditor General report section- 4.3.1

**Recommendation # 1-** The Council perform a formal and regular analysis of its credit card and accounts payable expenditure to:

- identify areas for further improvement in the use of its credit card facility and practices
- inform its procurement strategy.

#### Agreed Management action(s):

**With reference to Auditor General report recommendation # 1** - This recommendation is accepted and will be appropriately actioned.

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**Responsibility** Sam Green – CEO

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#### #4.2 Policies and procedures for credit card payments need to be updated

Performance Improvement  
Opportunity

Ref to Auditor General report  
section – 5.3.1 & 5.3.2

##### Finding(s)

The Council's credit card policies and procedures, dated February 2015, record a next review date of February 2017 and February 2018, respectively. The review of these policies and procedures were overdue at the time we started the examination in May 2018. We also noted that there is a difference of a year between the review dates of the policy and procedure.

We further acknowledge that the Council revised and updated the credit card policy and guidelines in October 2018 which provide more direction and guidance on:

- monitoring, reporting and escalating breaches with policy,
- the manager's responsibility when independently reviewing credit card transactions,
- tax invoice attributes and the cardholders are required to get another copy where the original is lost; and
- recording the transaction details and purpose.

However, the new policy and procedure could be further enhanced by including the following details:

- expenditure principles the cardholder is required to apply, and clearly evidence, to ensure proper use of public money,
- a definition of business purpose,
- a requirement for the cardholder to record the business purpose of the expenditure transaction on the reconciliation,
- a requirement that the independent review of the transaction be undertaken by a person who did not benefit or perceived to benefit from the expenditure,
- the purpose of approvals. For example, the direct manager approves the reconciliation, however it is not clear what this approval means,
- a specific timeframe for completing the reconciliations. The revised guideline requires reconciliations to be completed by the due date but does not specify a date or timeframe. We found that overall the reconciliations were completed and reviewed within 30 days from the transaction date; and
- credit card reconciliations are required to be completed prior to termination of employment.

##### Recommendation # 2 & 3

Auditor General report section – 5.3.1 & 5.3.2

The Council

- **recommendation # 2** - reviews its policies, together with the relevant procedures, regularly and by its expected due date (section 5.3.1)
- **recommendation # 3**- consider and update its credit card policy and guidelines for the improvements we identified (section 5.3.2)



**Agreed Management action(s):**

- **With reference to Auditor General report recommendation # 2**- This recommendation is accepted and will be appropriately actioned.
- **With reference to Auditor General report recommendation # 3** - This recommendation is accepted and will be appropriately actioned.

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**Responsibility** Sam Green – CEO

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Released 26 May 2020

**#4.3 The CEO's 2016-17 and 2017-18 sub-delegations to expend funds need to be reviewed and updated**

Performance Improvement  
Opportunity

Ref to Auditor General report  
section- 6.3.1

**Finding(s)**

During the audit, we noted that the 2016-17 and 2017-18 instrument of delegations records that the Council delegated the expenditure of funds, within the approved annual budget, to the CEO. The CEO, by instrument, sub-delegated this authority, as provided by s101 of the LGA, subject to conditions and limitation, to the following role positions:

- Deputy CEO
- Senior manager finance
- Manager finance and accounting

The conditions and limitation specified in the CEO's instrument of sub-delegations refers to a separate Limit of Authority Schedule maintained by finance. This schedule is an excel spreadsheet which:

- lists user profiles, authority limits and officers' names in addition to the Deputy CEO, Senior manager finance and Manager finance and accounting positions,
- is unclear whether any limitation operates over the named individual or role position,
- provides a monetary limit but does not explain whether it applies to a single or type of transaction and whether its exclusive of GST; and
- could be changed without obtaining the CEO's approval.

On further inquiry, the Council staff were unable to provide any formal instrument of sub-delegation made by the CEO to the council employees other than the Senior manager finance, Deputy CEO and Manager finance and accounting positions to expend funds within the approved annual budget.

As a result of the above noted deficiency in the delegation process, we were unable to verify whether the power to expend monies for expenditure incurred during the period examined (except for expenditure approved by the CEO and the Senior manager finance, Deputy CEO and Manager finance and accounting), was delegated in accordance with the LG Act.

This uncertainty increases the risk of the delegation being ineffective because any action taken in reliance of the excel spreadsheet schedule (i.e. approving expenditure) beyond the explicit CEO delegations would be unauthorised in that delegations were only specifically made to three positions other than the CEO.

The failure to ensure that formal, sufficiently specific and controlled instruments of delegation are in place and properly managed so that any changes update the formal instrument of delegations, is a serious control deficiency as Council officers may transact beyond their delegated authority.

In responding to our findings, in July 2019 the Council introduced the delegation process to ensure controlled instruments of sub-delegations are in place and properly managed. We did not review this new process in detail as it came into effect after the examination period and after we had completed the examination work.

**Recommendation # 4**

Auditor General report section- 6.3.1

**Recommendation # 4-** The Council consider, as it decides future risk priorities, an internal audit or legal advisor review the delegation process and documents to ensure they are clear, complete and an accurate record of the delegations in accordance with the LG Act. We consider better practice

would be for sub-delegations to be clearly referenced to the relevant role position and not to the individual employee

**Agreed Management action(s):**

**With reference to Auditor General report recommendation # 4** - This recommendation is accepted and will be appropriately actioned.

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**Responsibility** Sam Green – CEO

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Released 26 May 2020

**#4.4 Opportunity to improve the independent review process for credit card expenditure**

Performance Improvement  
Opportunity

Ref to Auditor General report  
section- 6.3.2 & 6.3.3

**Finding(s)**

The Council credit card policy and guidelines dated February 2015, which applied during the period of examination, required direct managers to ensure the monthly reconciliation was completed, transaction documents were attached to the reconciliation, the total amount balanced to the statement and the account numbers were correct. The finance staff also ensure the reconciliations were completed, the transactions were supported by tax invoices and account codes were correct. This review is to ensure records are correct and adequate to satisfy financial and tax reporting requirements.

**Key finding 1**

During our audit, we noted that 29 out of 30 credit card transactions were reviewed by a person other than the cardholder. However, we also observed that the independent review of credit card expenditure was not always performed effectively. Our assessment of the selected transactions against the expenditure principles found instances where the:

- business purpose was not clearly justified at the time the expenditure was incurred,
- expenditure was not supported by correct and/or appropriate records,
- approval of the expenditure's purpose, where applicable, was not in writing.

We note the Council's revised credit card policy and guidelines provide clearer instructions on the card holder's and direct manager's responsibilities. The revised guideline requires the cardholder to provide a suitable description of the expenditure and the purpose of the transaction to assist the direct manager (the independent reviewer) assess the validity of the transaction for Council purposes.

**Part 2**

During the audit, we noted that the credit card policy does not provide for the independent review of the Executive members' reconciliations.

We noted that :

- CEO's reconciliations were reviewed by the Mayor and a senior officer in the governance division.
- The CEO reviewed the Executive members' reconciliations.
- The CEO's reconciliations record the Mayor's signature but did not explain the purpose of the Mayor's review.

We noted instances where the independent review was ineffective, and the involvement of the Mayor did not create reasonable capacity for staff to question the CEO's transactions.

We acknowledge that the revised credit card policy provides that the finance team will monitor credit card compliance and refer all breaches of the policies and guidelines to the Executive group. This is an effective process for finance team to question transactions and to report and escalate questionable transactions of any individual Executive to the Executive group.

**Recommendation # 5, 6 & 7**

Auditor General report section- 6.3.2 & 6.3.3

The Council:

- **recommendation # 5-** perform a review of a sample of credit card transactions to ensure the

independent review is operating effectively and in line with the new/revised policies and guidelines (section 6.3.2)

- **recommendation # 6-** consider a suitable senior officer assess the Executive's credit card transactions against the expenditure principles and report any questionable and unresolved" transactions to the Executive group (section 6.3.3)
- **recommendation # 7-** audit committee periodically receive and review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purpose (section 6.3.3)

**Agreed Management action(s):**

- **With reference to Auditor General report recommendation # 5** - This recommendation is accepted and will be appropriately actioned.
- **With reference to Auditor General report recommendation # 6** – We accept the recommendation for a senior officer to assess Executive credit card transaction. This will be appropriately actioned.
- **With reference to Auditor General report recommendation # 7** - We do not accept the recommendation regarding periodic review by Audit Committee as this is not the function of the Audit Committee, however a mechanism will be set up for reporting any transactions by exception to the Audit Committee where anomalies are identified.

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**Responsibility** Sam Green – CEO

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**Performance Improvement  
Opportunity****Ref to Auditor General report  
section- 6.3.4 & 6.3.5****#4.5 Inadequate records maintained for credit card transactions****Finding(s)**

During the audit, we reviewed reconciliation records for the sample of 30 credit card transactions. We were unable to verify the business purpose/justification of the expenditure for 15 out of 30 reconciliation records (50%).

Of the 15 transactions, the Council sought reimbursement from the relevant cardholder for three transactions as the business purpose of the expenditure was not clearly justified. The reimbursements were sought and paid for during the course of this audit. These transactions were reimbursed after 6 months to 2 years after the transaction date.

For the remaining 12 transactions, we note the following:

- the Council staff were unable to provide records which explained the business purpose of the expenditure for three transactions. We discussed these transactions, where possible, with the relevant cardholder/independent reviewer. A representation was made by the relevant Council staff to explain the business purpose, however, without proper records it was still unclear as to whether the explanation provided supported the transaction in question. On this basis, we concluded that for these transactions the Council had not clearly demonstrated that the expenditure was for business purpose.
- for nine transactions we were not satisfied that the Council staff has adequately explained the business benefit to the Council, and the public benefit, by incurring the expenditure. On this basis, we concluded that for these transactions the Council had not clearly demonstrated that the expenditure was for business purposes. Most of these transactions related to entertainment and hospitality expenses.

Further, we reviewed the reconciliation records of these transactions to determine whether the record was adequate and correct to support the credit card expense.

We found instances where:

- the transaction was not supported by a tax invoice, a requirement of the Council's credit card policy
- the approval for the purpose of the sensitive expenditure was not in writing. These transactions related to expenditure which is not common practice and there was no supporting Council policy
- the reconciliation record did not refer to other relevant records to support its business purpose. For example, prior approvals of the expenditure purpose, reference to the relevant Council policy, specific budget approvals.

**Recommendation # 8 & 9**

Auditor General report section- 6.3.4 & 6.3.5

The Council:

- **recommendation # 8-** update its relevant policies for the expenditure principles staff need to apply and clearly demonstrate at the time the expenditure was incurred (section 6.3.4)
- **recommendation # 8-** the nature and extent of information needed to adequately justify the business purpose of the expenditure. This may include obtaining approval of sensitive

expenditure before it is incurred (section 6.3.4)

- **recommendation # 9** - maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and proper use of public money. (section 6.3.5)

**Agreed Management action(s):**

- **With reference to Auditor General report recommendation # 8** – We accept the recommendation to update the policies with relevant expenditure principles. The recommendation will be appropriately actioned.
- **With reference to Auditor General report recommendation # 9**—This recommendation appears at odds with the purpose of credit card use ie. efficient and effective purchasing tool. The recommendation is therefore not supported.
- **With reference to Auditor General report recommendation # 9** -The Council does support the maintenance of adequate credit card records.

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**Responsibility** Sam Green – CEO

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**#4.6 Reassess the credit card expenditure policies and procedures with respect to principles of use of public money**

## General Observation

Ref to Auditor General report section- 6.3.6

**Audit Observation(s)**

Of the 27 credit card transactions, we were not satisfied that for 17 transactions, the Council had demonstrated that it was necessary to incur the expenditure in performing its functions and the benefit it provided to the public/or it was value for money. While five transactions were made in accordance with approved policy, we concluded that the Council incurred an additional cost for minimal or no benefit to either the Council and/or public.

The individual transaction amounts we tested were low value when compared to the Council's total expenditure. However, it may not be the case when compared to the total expenditure type incurred across the Council. This expenditure information will not always be readily available, if at all, when making expenditure decisions. It is important cardholders exercise and demonstrate proper judgement in applying the expenditure principles when spending public money. This includes considering alternative cost options to ensure value for money is achieved.

We also concluded that for 16 transactions the nature of the sensitive expenditure may be considered inappropriate in the public's view by the public when spending public money. For example: purchase of alcohol, providing gifts to staff for personal events.

**Audit Comment # 8**

Auditor General report section- 6.3.6

**Recommendation # 8-** The Council update its relevant policies for the expenditure principles staff need to apply and clearly demonstrate at the time expenditure is incurred.

**Management response(s):**

- **With reference to Auditor General report recommendation # 8-** The Council considers that this is a general opinion of the Auditor General, not a factual finding and not supported by evidence.
- The expenditure was incurred under the policies existing and operational during the audit period. The Auditor General has not provided any comments or observations on the quality and adequacy of the policies.

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**Responsibility** Sam Green – CEO

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**#4.7 Opportunity to further improve the policies and processes relating to credit card expenses**

Performance Improvement  
Opportunity

Ref to Auditor General report  
section- 7.3.1

**Finding(s)****Travel policy and guidelines**

We noted that the new travel policy and guidelines provide direction and guidance on the:

- management, approval and administrative arrangements. The policy requires employees, prior to travel, to provide a brief summary on the purpose of the travel which must be approved by the relevant General Manager.
- restrictions to enable proper and prudent expenditure behaviour. For example, the guidelines provide thresholds for accommodation and meal expenses; all eligible costs exclude alcoholic beverages
- requirement for exceptions to the policy which are escalated to the Executive for approval.

The new travel policy and procedures, in our view, could be further improved by including:

- a set timeframe of obtaining travel approvals in advance, where possible, to ensure the airfares and accommodation are not unreasonably high
- the travel application clearly explains the travel purpose in terms of the business purpose, the expected benefits to the Council and outcomes; and confirms it represents the most efficient and cost-effective way to achieve the Council's business outcomes (i.e. alternative arrangements have been considered)
- definitions for business purpose, travel diary
- international travel arrangements and policy on airline club memberships
- vehicle hire arrangements
- any necessary restrictions on incidentals and personal expenses such as mini-bar expenses and in-house movies
- requirements when employees undertake private travel while on official Council travel
- the approval of Executive members' travel purpose and arrangements.

**Hospitality policy and guidelines**

The Council has defined hospitality expenditure to include food, drinks, gifts and entertainment which are not covered by the travel and recognition of staff policies.

We noted that the new hospitality policy and guidelines provide direction and guidance on the:

- allowable and non-allowable hospitality expenditure
- conditions for catering meetings which only extends to basic sustenance as determined by the relevant manager
- reporting requirements
- requirements for exceptions to the policy which are escalated to the Executive for approval.

The new hospitality policy and procedures, in our view, could be further improved by including:

- as a matter of policy, require that any hospitality expenditure can only be incurred with reference to the Council's official functions and business purpose and demonstrates efficient and cost-effective use of public money. For example, when
- building relationships with external parties to further the Council's objectives

- representing the Council in an official capacity
- building revenue
- developing the organisation through training/planning sessions but being cost-effective
- it is reasonable in terms of cost and community expectations.
- definition of business purpose/Council business/official functions
- an approval prior to the expenditure. The request is required to clearly explain the business purpose of the expenditure, who is attending the function/meeting, the expected benefits and outcome to the Council, a breakdown of the budgeted costs (with value for money being the key consideration for all costs)
- events where hospitality will be provided by the Council. For example: community events, a function to recognise the contribution of volunteers, when hosting an event attended by representatives of external groups/government. The policy on the provision of alcohol, at a reasonable cost, at these events and any specific requirements of Council employees attending (aligned with the Code of Conduct for Council Employees).

**Recommendation # 10, 11 & 12**

Auditor General report section- 7.3.1

We recommend that:

- **recommendation # 10** - The Council consider and update its travel and hospitality policies and guidelines for the improvements identified below.
- **recommendation # 11** - In revising its expenditure policies, the Council should consider consulting with its community, and other key persons or groups, to better understand the public's expectations of acceptable expenditure behaviors
- **recommendation # 12**- The Council perform a review of its business expense transactions to ensure the new/revised policies and guidelines have been implemented and operating effectively.

**Agreed Management action(s):**

- **With reference to Auditor General report recommendation # 10** -This recommendation is accepted and will be actioned accordingly.
- **With reference to Auditor General report recommendation # 11** - The Council notes the recommendation by Auditor General and will consider the appropriateness of community consultation on a case by case basis for future policy/procedure updates in accordance with its public consultation policy.
- **With reference to Auditor General report recommendation # 12** - This process is already set up and being used effectively.

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**Responsibility** Sam Green – CEO

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## General Observation

Ref to Auditor General report  
section-8.3.1**# 4.8 Realign the business policies to reflect the business purpose****Audit Observation(s)**

The Council's recognition programs provide for social events and gifts to staff to celebrate Christmas and achieving years of service milestones, contribution of staff and support social interaction amongst staff. We found some recognition programs, in our view, are not clearly aligned with the business purpose and policy intent of recognising performance. In our opinion, the standard of performance being recognised would be higher than a satisfactory level given staff are already remunerated for performing their role.

We were not satisfied that there was a clear link between the employee's contribution and high standard of performance in achieving the Council's objectives for all recognition programs. Further, the reason for the recognition is not, in our opinion, clearly aligned with the Council's business purpose. The following are examples.

**Personal events**

The Council provides a gift to employees in support of personal events. The revised policy and guidelines limits these events to time of mourning. The reason for the reward is not in recognition of the employee's performance in achieving the Council's objectives.

We consider it appropriate for an entity to provide staff support for significant personal events. The nature of this support is generally provided by:

- the conditions of an employee's service, generally as specific leave entitlements.
- staff contributing their own money towards a gift to employees for personal events.

**Christmas social functions**

The Council sponsors a Christmas breakfast, a social event, for all staff. The guidelines also allow staff two hours paid time to attend a directorate or team Christmas lunch at the individual's expense. The Council staff advised that the Christmas event for 2016 and 2017 cost about \$19,000 and \$13,000, respectively. The Christmas events were fully funded by public money.

The Council staff provided a breakdown of the actual cost of the 2016 Christmas event which included:

- \$6,600 for food and drinks
- \$1,160 for entertainment
- \$1,400 for decorations
- \$2,443 for room setup.

The Council staff were unable to provide a breakdown of the budget, for the 2017 Christmas event. The sample of credit card transactions we tested included a \$810 payment for the hire of a photo booth for the 2017 Christmas event.

In our opinion there was no clear business benefit obtained by the Council for the amount it budgeted and spent on the Christmas events in achieving its objectives and to perform its functions. We consider the amounts incurred for entertainment, room set-up and decorations were unnecessary and inappropriate use of public money.

The Council's recognition programs include providing gift rewards to staff for the following reasons.

- A gift is provided to staff for Christmas
- A charity donation or, flowers , up to the value of \$75, is provided to support staff in times of

mourning.<sup>12</sup>

- A gift(s) to staff for every five years of service (commencing at 10 years of service). The gift is a \$50 - \$150 storegift voucher<sup>13</sup>. The value of the gift reward varies depending on the length of service.
- A staff member who retires after 25 years, or more, of service receives a retirement gift up to the value of \$250.

We were not satisfied that the Employee recognition policy and guidelines clearly identify the performance achievements being recognised by sponsoring an annual and general social event.

The SA recognition guide states recognition is most effective when it is specific and provided immediately after the performance achievements.

In our opinion, these strategies are not consistent with the principles of reward and recognition but relate more to staff support. These events are typically organised and funded by an entity's social club, which are activities separate from the entity and not funded by public money. The Council may decide to contribute to a social club event (either monetary or allow the use of Council facilities). Generally, it is our view that it is not necessary or appropriate to use public money to fund social events. Where the Council makes a financial contribution to a social event or gift to an employee, it also exposes the Council to the risk of negative public and parliamentary scrutiny on its use of rate and taxpayer funds. It is imperative that it can clearly demonstrate that it has observed the expenditure principles outlined in section 3.3 and, without any doubt, its expenditure decision is able to withstand Parliamentary and public scrutiny.

#### **Audit Comment # 13**

Auditor General report section-8.3.1

**Recommendation # 13** - We recommend that the Council review its employee recognition of staff policy and guidelines with specific focus on staff performance.

#### **Management response(s):**

**With reference to Auditor General report recommendation # 13-** The Council considers that this is a general opinion of the Auditor General, not a factual finding and not supported by evidence. This general observation is accepted and will be actioned accordingly.

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**Responsibility** Sam Green – CEO

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## General Observation

Ref to Auditor General report  
section- 9.2.1

**#4.9 Reconsider expenditure for Council members' lunch and gifts****Audit Observation(s)**

During the audit we noted that the Council's Council Member Support Policy and Guidelines, dated 26 July 2016, provides for the council members' allowances, support and expenses pursuant to section 77 of the LG Act. This policy applied during the period examined. This policy includes special functions where from time to time Council members and the Executive will have special functions, such as Christmas or staff functions, which will be arranged by the CEO in consultation with the Mayor.

Of the 30 transactions examined, three transactions related to expenditure incurred for the benefit of the elected members. These transactions were for the Elected Members' Christmas function held on 13 December 2017. We asked Council staff to:

- explain the business purpose of the expenditure and the benefit it provided to the Council in achieving its objectives and providing services to its community
- confirm whether the expenditure was incurred for the council members in performing or discharging their official functions and duties
- provide a list of people who attended the Elected Members' lunch.

The Council staff advised the:

- intent of the policy was to provide support for council members in the discharge of their official duties
- policy enables the Mayor to hold a Christmas function and provide gifts
- CEO approved a budget of \$3,000 for the Elected Members' 2017 Christmas function
- elected members did not perform or discharge an official function or duty by attending the lunch
- special function is to recognise the efforts by the elected members in discharging their duties throughout the year
- special function is included in this policy to enable the register of allowances and benefits to be complete.

A total of 26 people attended the lunch which included elected members, executive members and their respective partners.

**Key observations****1. Business purpose was not justified**

The Council staff advised that the elected members did not perform or discharge official functions and duties while attending the Christmas lunch.

In our view, the Elected Members' Christmas lunch and gifts is not consistent with the intent of sections 77 and 78 of the LG Act in that the expenditure was not incurred as part of council members performing or discharging their official functions and duties. We concluded that the Council member support policy has not been implemented appropriately in support of the Elected Members' Christmas lunch and gifts.

**2. The expenditure was unnecessary and inappropriate**

The elected members receive an allowance and the required support in performing or discharging their official functions and duties. The Council incurred additional cost with no additional business benefit to the Council. In our view, the Christmas gifts to the elected members was unnecessary and

inappropriate use of public money.

### 3. Non-compliance with the policy

We found that the Council did not comply with its approved policy where the:

- Council paid for the cost of elected members' partners and executives and their partners to attend the lunch. The policy is to support the elected members
- policy does not provide for Christmas gifts to the elected members
- 2017 Christmas function and gifts were not disclosed in the register of allowances and benefits.

Overall, we concluded that the expenditure on Elected Members' Christmas lunch and gifts was improper use of public money. Continuing this expenditure practice exposes the Council to the risk of negative public and parliamentary scrutiny on its use of rate and taxpayer funds.

#### **Audit Comment # 14, 15 & 16**

Auditor General report section- 9.2.1

The Council

- **Recommendation # 14** - Revise its Mayor Support and Elected Members Support Policy to remove the provision of special functions.
- **Recommendation # 15**- To inform its decision on future practice, the Council survey its community to understand the public's expectation of what expenditure of a sensitive nature may or may not be funded by public money or coordinate with other councils to gain this information.
- **Recommendation # 16** -Audit committee regularly scrutinise sensitive expenditure, which results in benefits to the elected members to determine whether it is proper use of public money.

#### **Management response(s):**

- **With reference to Auditor General recommendation # 14** - The Council considers that this is a general opinion of the Auditor General, not a factual finding and not supported by evidence.
- **With reference to Auditor General recommendation # 15** - The council will continue to consult with its community, in accordance with the community consultation policy
- **With reference to Auditor General recommendation # 16** - The council has a legislated gifts and benefits register, which is publicly available and has an Elected Members Support policy, which outlines what benefits the elected members get in support of their role.

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**Responsibility** Sam Green – CEO

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**C. COUNCIL/COMMITTEE TO DECIDE HOW LONG ITEM 8.1 IS TO BE KEPT IN CONFIDENCE****Purpose**

To resolve how long agenda item 8.1 is to be kept confidential.

**STAFF RECOMMENDATION**

Pursuant to Section 90(2) and Section 91(7) of the Local Government Act 1999, the Committee orders that the following aspects of Item 8.1 be kept confidential in accordance with Committee's reasons to deal with this item in confidence pursuant to Section 90 (3) (j) of the Local Government Act 1999:

- Report for Item 8.1
- Attachments for Item 8.1
- Minutes for Item 8.1

This order shall operate until the report is tabled in the Parliament by the Auditor General, or will be reviewed and determined as part of the annual review by Council in accordance with Section 91(9)(a) of the Local Government Act 1999, whichever comes first.



## **8.2 INDEPENDENT COMMISSIONER AGAINST CORRUPTION (ICAC) EVALUATION UPDATE**

Contact Person: Mr Sam Green

### **Why is this matter confidential?**

Subject to an order pursuant to Section 90 (3) (j) of the Local Government Act 1999, this matter is confidential because it relates the Independent Commissioner Against Corruption Evaluation. Council is required to ensure the confidentiality of the information related to and contained within the evaluation report until the Independent Commissioner Against Corruption releases the report.

### **A. COUNCIL/COMMITTEE TO MOVE MOTION TO GO INTO CONFIDENCE**

No action – this motion passed in the open section.

### **B. THE BUSINESS MATTER**

#### **8.2 Independent Commissioner Against Corruption (ICAC) Evaluation Update**

**Presenter:** Mr Sam Green

**Purpose:** To provide an update on the Independent Commissioner Against Corruption (ICAC) Evaluation.

**Duration:** 30 Minutes

### **C. COUNCIL/COMMITTEE TO DECIDE HOW LONG ITEM 8.2 IS TO BE KEPT IN CONFIDENCE**

#### **Purpose**

To resolve how long agenda item 8.2 is to be kept confidential.

#### **STAFF RECOMMENDATION**

Pursuant to Section 90(2) and Section 91(7) of the Local Government Act 1999, the Committee orders that the following aspects of Item 8.2 be kept confidential in accordance with Committee's reasons to deal with this item in confidence pursuant to Section 90 (3) (j) of the Local Government Act 1999:

- Presentation for Item 8.2

This order shall operate until the Independent Commissioner Against Corruption release the report, or will be reviewed and determined as part of the annual review by Council in accordance with Section 91(9)(a) of the Local Government Act 1999, whichever comes first.