

Report 3 of 2020

Examination of credit card
use and management:
City of Playford



Report of the Auditor-General

Report 3 of 2020

Examination of credit card
use and management:
City of Playford

Tabled in the House of Assembly and ordered to be published, 3 March 2020

Second Session, Fifty-Fourth Parliament

By authority: S. Smith, Government Printer, South Australia



Auditor-General's Department

www.audit.sa.gov.au

Enquiries about this report should be directed to:

Auditor-General
Auditor-General's Department
Level 9, 200 Victoria Square
Adelaide SA 5000

ISSN 0815-9157



2 March 2020

Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

The Hon. T J Stephens MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon V A Tarzia MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General: Report 3 of 2020 *Examination of credit card use and management: City of Playford*

As required by the *Public Finance and Audit Act 1987* (PFAA), I present to each of you Report 3 of 2020 *Examination of credit card use and management: City of Playford*. As required by the PFAA a copy of the report was also delivered to the City of Playford.

Content of the Report

In line with section 32(1)(a) of the PFAA the Auditor-General may examine the accounts of a publicly funded body and the efficiency and economy of its activities.

I have examined the credit card use and management of three publicly funded bodies (City of Charles Sturt, City of Playford and The Coorong District Council).

This report communicates my findings on the examination of credit card use and management by the City of Playford.

I concluded that the City of Playford did not always use and manage its credit cards efficiently and economically during the period I examined (1 July 2016 to 30 April 2018).

Acknowledgements

The audit team for this report was Andrew Corrigan, James Baker, Aaron Steicke and the Local Government Team.

I would like to record my appreciation for the cooperation and assistance provided by the City of Playford.

Yours sincerely

A handwritten signature in black ink, appearing to read "Richardson", with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

Contents

1	Executive summary	1
1.1	Introduction	1
1.2	Conclusion	3
1.3	What we found	4
1.4	What we recommended	7
1.5	Response to our recommendations	8
1.5.1	Council statement – failure to conclude on the audit objective	8
1.5.2	Council statement – beyond scope communicated and non-representative sample selection	9
1.5.3	Council statement – no basis for organisation-wide conclusions	10
1.5.4	Council statement – time lag does not reflect improvements	10
1.5.5	Council statement – speculative nature of findings	10
1.5.6	Council statement – lack of factual basis for findings and recommendations	11
1.5.7	Council statement – incomplete controls testing methodology	11
1.5.8	Council statement – inefficient audit process	11
2	Background	13
2.1	Credit card overview	13
2.1.1	Benefits and costs of credit card use	13
2.1.2	Relevant law	13
2.2	City of Playford overview	14
2.2.1	Introduction	14
2.2.2	Credit card use and expenditure	15
3	Audit mandate, objective and scope	18
3.1	Our mandate	18
3.2	Our objective	18
3.3	What we examined and how	18
3.3.1	Review of key controls and transactions	18
3.3.2	Proper use of public money	19
3.3.3	Procedural fairness process	21
3.4	What we did not examine	22
4	Credit card use supports efficiency	23
4.1	Introduction	23
4.2	Examination approach	23
4.3	Findings	23
4.3.1	Improvements in analysis of credit card use and expenditure	23

5	Credit card policy and procedures	26
5.1	Introduction	26
5.1.1	Relevant law	26
5.1.2	Council policy	27
5.2	Examination approach	27
5.3	Findings	27
5.3.1	Credit card policy and procedures were reviewed in October 2018	27
5.3.2	Revised credit card policy and procedures could be further improved	28
6	Specific controls over credit card expenditure	30
6.1	Introduction	31
6.1.1	Relevant law	31
6.2	Examination approach	32
6.3	Findings	33
6.3.1	The then CEO's 2016-17 and 2017-18 sub-delegations to expend funds were deficient	33
6.3.2	Deficiencies in the independent review of credit card expenditure	35
6.3.3	Independent review of CEO's transactions could be improved	36
6.3.4	Business purpose was not clearly justified at the time expenditure was incurred	38
6.3.5	Not all expenses were supported by adequate records	39
6.3.6	The expenditure incurred was not always demonstrated as necessary and/or an appropriate use of public money	40
7	Credit card payments for business expenses	42
7.1	Introduction	42
7.2	Examination approach	43
7.3	Findings	43
7.3.1	Policy guidance for business expenses could be further improved	43
7.3.2	Travel expenses were not supported by adequate accounting records	47
7.3.3	Entertainment and hospitality expenses were not always a proper use of public money	47
7.3.4	Gifts were not always a proper use of public money	48
8	Credit card payments for reward and recognition expenses	50
8.1	Introduction	50
8.1.1	Relevant law	50
8.1.2	Council policy	50
8.1.3	Relevant credit card expenditure	51
8.2	Examination approach	51

8.3	Findings	54
8.3.1	Policy intent is not clearly aligned with business purpose	54
8.3.2	Gifts to staff were not always necessary or appropriate	56
8.3.3	The extent and value of loyalty of service rewards was considered unnecessary	57
8.3.4	Council response	57
8.3.5	Our response	57
9	Credit card payments for elected members' benefits	58
9.1	Introduction	58
9.1.1	Relevant law	58
9.1.2	Council policy	59
9.1.3	Relevant credit card expenditure	60
9.2	Findings	60
9.2.1	Expenditure for elected members' lunch and gifts was not a proper use of public money	60
Appendices		
	Appendix 1 – Sensitive expenditure categories	63
	Appendix 2 – Expenditure principles	65
	Appendix 3 – Credit card transactions – summary of findings	69
	Appendix 4 – Credit card expenditure – examples	75
	Appendix 5 – Abbreviations used in this Report	82

1 Executive summary

1.1 Introduction

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 to spend its funds as it thinks fit in performing its official duties or achieving its objectives.

The law, however, requires a council to act responsibly when making decisions to spend public money and to 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 to be unreasonable or wasting public money. This negatively impacts public trust in the South Australian local government sector.

A credit card can be an efficient and convenient tool to purchase or pay for goods and services with public money. Credit cards are used for a range of council expenditure, some of which is subject to increased public sensitivity because of its nature and it may:

- create a perception that someone received a private benefit 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.

In this Report we refer to these expenses as sensitive expenditure. While it can be efficient, using 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. Losing public trust may negatively impact on the council's ability to perform its functions efficiently and effectively.

Our examination objective was to determine whether the City of Playford (the Council) used and managed its credit cards efficiently and economically. The examination objective and scope are considered in the context of the *Public Finance and Audit Act 1987* (the PFAA), which provides for the examination of the degree of efficiency and economy with which public resources are used. Public resources include public money, assets, facilities and staff labour. We consider the proper¹ use of public money is directly linked to efficiency and

¹ The Macquarie dictionary defines proper as 'appropriate to the purpose or circumstances; conforming to established standards of behaviour or manners'.

economy by definition and in the context of the PFAA. This has been our longstanding view and was expressed, for example, in a 2001-02 report² where the then Auditor-General reported the following commentary from the report of the United Kingdom's Committee of Public Accounts *The Proper Conduct of Public Business*:

... 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.

For the purposes of this examination, credit cards are efficient and economic where they are used and managed effectively to pay for low-value and high-volume transactions that are for business purposes, while minimising the above-mentioned risks.

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

We examined the Council's policies and procedures for using and managing credit cards and determined whether it used them to promote and support its efficiency.

We examined the Council's policies and procedures governing specific expense types and determined whether they provided adequate direction and guidance to Council staff to ensure the proper use of public money.

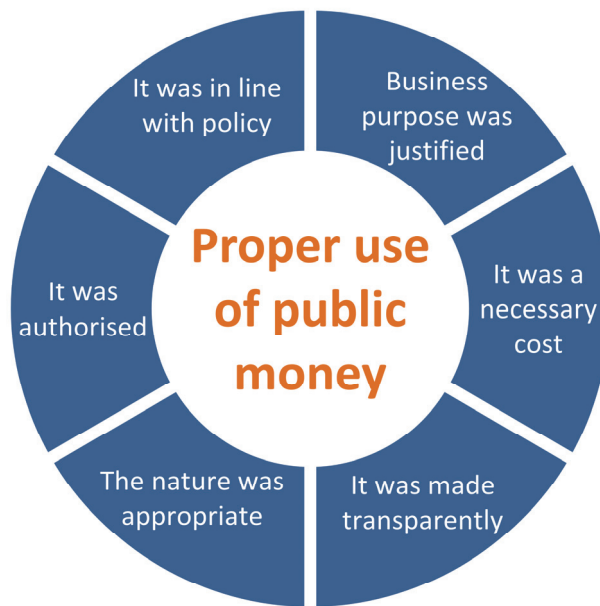
We also examined two key controls over credit card expenditure to ensure it was authorised and detected the misuse and/or waste of public money. We tested 30 selected credit card transactions³ to determine whether:

- two key control activities were being performed effectively, namely the selected transactions were authorised and independently reviewed
- the expenditure complied with policy or to identify gaps in policy
- the expenditure was consistent with the proper use of public money by assessing them against the expenditure principles provided in figure 1.1, which are further explained in section 3.3.2.

² Report of the Auditor-General for the year ended 30 June 2004 *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*, February 2005.

³ This selection of 30 transactions was not intended to be a representative sample of the Council's total expenditure.

Figure 1.1: Expenditure principles



We acknowledge that the nature of what we describe as sensitive expenditure means that assessing the appropriateness and effectiveness of some spending involves subjective judgement. We considered practices in local and state governments here and in other jurisdictions to inform our approach. A goal of our examination, which included two other councils in its scope,⁴ was to seek to ensure the best and clearest guidance is available to those spending public money to increase effectiveness and reduce risk in the long term.

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

While we were conducting this examination, the Council introduced or revised some of its policies and procedures. We acknowledge this where relevant. We have not examined how they were applied. We reviewed them only enough to provide any observations we considered relevant.

The matters raised in this Report and the transactions we reviewed are now historical to the Council given its improved policies and practices since October 2018. 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 entities, both state and local, to read this Report and consider whether our findings and the Council's improvements can be used to improve their own practices.

1.2 Conclusion

We concluded that the Council did not always use and manage its credit cards efficiently and economically during the period we examined, 1 July 2016 to 30 April 2018 (22 months).

⁴ Auditor-General's Report 2 of 2020 *Examination of credit card use and management: City of Charles Sturt* and Auditor-General's Report 4 of 2020 *Examination of credit card use and management: The Coorong District Council*.

Overall, credit cards were used for their intended purpose in that they were used for low-value and high-volume transactions. During the examination, the Council actively responded to our inquiries and acted to improve its practices by reviewing existing policies and introducing new ones to govern its key expense types.

For the examination period 1 July 2016 to 30 April 2018, while credit cards were issued to promote and support the Council's efficiency and frequently used by cardholders, we identified gaps in some important areas, including:

- policy direction and guidance to support some expenses paid with a credit card were not developed and implemented
- the credit card policy and expenditure policies⁵ did not include expenditure principles to help financial delegates make expenditure decisions that clearly demonstrated the proper use of public money
- a deficiency in the financial delegation process, which made it unclear whether the power to spend money was delegated in line with the *Local Government Act 1999* (LG Act)
- the independent review of credit card transactions was not always performed effectively for the transactions we examined
- deficiencies in the records supporting some credit card transactions where the business purpose was not clearly justified at the time the expenditure was incurred
- instances where, in our opinion, costs incurred were not a proper use of public money.

Our assessment of selected transactions⁶ against the expenditure principles corroborated our findings that the Council needed policy direction and guidance.

In our opinion the following purchases are not a proper use of public money, other than in rare circumstances and where the business purpose is clearly justified:

- alcohol, unless for resale at official Council events
- coffee/lunch for offsite meetings between Council staff
- refreshments for celebratory events.

1.3 What we found

Credit card use supports efficiency (section 4)

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

Overall, credit cards were used for their intended purpose in that they were used for low-value and high-volume transactions, and most cardholders used their cards frequently.

⁵ The policies that were effective during the period we examined, 1 July 2016 to 30 April 2018.

⁶ This selection of transactions we tested was not intended to be a representative sample of the Council's total expenditure.

The Council does not undertake a formal and regular analysis of its credit card expenditure to ensure the use of credit cards continues 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 using and managing credit cards. The Council's review of its credit card policy and procedures was overdue at the time we started our examination in May 2018. We found they could be further improved by including:

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

Specific controls over credit card expenditure (section 6)

Financial delegations

For the period we examined, 2016-17 and 2017-18, the Council was unable to provide any formal instrument of sub-delegation made by the then Chief Executive Officer (CEO) to council employees, other than to the Senior Manager Finance, Deputy CEO and Manager Finance and Accounting, to expend funds within the approved annual budget for those years. As a result of this deficiency in the delegation process, we concluded that it was unclear whether the power to expend funds for expenditure incurred during the period we examined was delegated in line with the LG Act.

In responding to this finding, in July 2019 the Council changed 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 our examination work.

Independent review

Credit card transactions are reviewed by someone other than the cardholder. We found that this independent review was not always effective. This is because we found instances where, in our opinion:

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

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 Council staff had adequately explained the business benefit to the Council, and the public benefit, for some expenditure transactions we reviewed. The Council was unable to provide records that explained the business purpose for three transactions.

We were not satisfied that, for some 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 that the Council's revised credit card policy and guidelines require the cardholder to provide a suitable description and the purpose of the expenditure to help the independent reviewer assess the validity of the transaction for Council purposes.

Credit card payments for 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, incurred between 1 July 2016 and 30 April 2018, found the Council needed to have policies and guidelines to govern these expenses. We identified further improvements that could be made to the policies and guidelines, dated October 2018.

We were not satisfied that the business purposes of the hospitality expense transactions we reviewed were always clear and, in our view, they were not always a necessary and/or appropriate use of public money.

We found that 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 for reward and recognition expenses (section 8)

The Council adopted a revised employee recognition policy and guidelines, dated 13 February 2019, before we communicated our examination findings. Our review of the selected credit card transactions found that the Council needed to review its recognition of staff policy and guidelines.

We were not satisfied that for all Council recognition programs there was a clear link to recognising a high standard of employee performance or alignment to business purpose. Further, the reason for the recognition was not, in our opinion, clearly aligned with the Council's business purpose.

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

Credit card payments for elected members' benefits (section 9)

We examined three expenses incurred for the elected members' 2017 Christmas lunch. The Council's Mayor and elected member support policies and guidelines provide for special functions. 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 their official duties.

In our view:

- the Christmas lunch was a social function where everyone attending received a private benefit with little or no business benefit to the Council
- the Christmas gifts to the elected members were unnecessary and an inappropriate use of public money.

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

1.4 What we recommended

We recommended that the Council should:

- perform a formal and regular analysis of its credit card and accounts payable expenditure to:
 - identify areas for further improvement in the use of credit cards
 - inform its procurement strategy (section 4.3.1)
- review its policies and guidelines regularly and by the due date (section 5.3.1)
- consider updating its credit card policy and guidelines for the improvements we identified (section 5.3.2)
- consider, as it decides future risk priorities, having an internal auditor or legal advisor review the delegation process and documents to ensure they are a clear, complete and accurate record of the delegations under the LG Act (section 6.3.1)
- review a sample of credit card transactions to ensure the independent review is operating effectively and in line with its revised policy and guidelines (section 6.3.2)
- consider having a suitable senior officer assess the Executive's credit card transactions against the expenditure principles and report any questionable transactions to the Executive group (section 6.3.3)

- have its audit committee periodically review a report of the CEO’s credit card transactions to ensure the expenditure is reasonable and for business purposes (section 6.3.3)
- update its policies for:
 - the expenditure principles that 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 (sections 6.3.4 and 6.3.6)
- maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and the proper use of public money (section 6.3.5)
- consider updating its travel and hospitality policies and guidelines for the improvements we identified (section 7.3.1)
- in revising its expenditure policies, consider consulting with its community, and other key people or groups, to better understand the public’s expectations of acceptable expenditure behaviours (sections 7.3.1 and 9.2.1)
- review its business expense transactions to ensure the new/revised policies and guidelines are implemented and operating effectively (section 7.3.1)
- review its employee recognition policy and guidelines with specific focus on staff performance and the expenditure principles (section 8.3.1)
- revise its Mayor support and elected member support policy guidelines to remove the provision of special functions (section 9.2.1)
- have its audit committee regularly scrutinise sensitive expenditure that results in benefits to the elected members to determine whether it is a proper use of public money (section 9.2.1).

1.5 Response to our recommendations

The Council accepted most of our recommendations and advised what action it would take. The Council’s response is included in each section of the Report.

The Council also communicated its dissatisfaction with the examination process in its final response. Those comments and our responses are provided below.

1.5.1 Council statement – failure to conclude on the audit objective

The Auditor General’s final draft report has not provided a fair conclusion of the key objectives as stated in the scope of examination agreed with the Council in May 2018. The report does not provide adequate comments and observations whether the Council is using the credit cards in an efficient and economic manner.

Our response

The overall conclusion of our examination is stated in section 1.2. It was drawn after completing all aspects of the examination including procedural fairness, which includes receiving final comments from the Council.

Sections 3.2 and 3.3 of our Report set out our objective and what we examined as communicated in our letter dated 11 May 2018 to the Mayor. The Report explains the work we did to form our conclusion. Our original scope was to cover the period 1 July 2016 to 30 April 2018. As explained in section 1.1, in the course of this examination the Council has introduced or revised various policies and practices. We reviewed the revised policies to be able to provide any observations we considered would be relevant to the examination. We have not examined their application.

1.5.2 Council statement – beyond scope communicated and non-representative sample selection

The scope of the examination communicated to Council in May 2018, suggested a fair and balanced assessment would be undertaken in regards to the efficiency and economy of credit card usage. However, (it seems to the reader) 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.

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.

Our response

Our examination involved reviewing policies and procedures, analysing the population of credit card transactions and testing 30 credit card transactions. The Council raised the matter of our sample during our procedural fairness process. This Report acknowledges the selected 30 transactions are not a representative sample of the Council's total expenditure. We communicated further information to the Council and ensured our Report explained our audit approach. For example, section 2.2.2 explains our analysis of credit card transactions.

Section 3.3.2 explains our view that efficiency of credit card use is directly linked to the proper use of public money. We have also explained the standards we identified as being relevant to the proper use of public money. Section 3.3.2 also explains our purpose in selecting 30 transactions, which was to test transactions against the expenditure principles we identified. Appendix 2 reports the sources we used to establish these principles. The expenditure principles were also communicated in writing to the Council at the start of the examination.

1.5.3 Council statement – no basis for organisation-wide conclusions

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

Our response

Refer to our previous responses.

1.5.4 Council statement – time lag does not reflect improvements

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.

Our response

As reported in sections 1.1, 5.2, 7.2, and 8.2, we extended our examination work to review the Council's revised policies and guidelines relevant to our examination. This included identifying potential further improvements. These policies and guidelines were revised by the Council after we commenced our examination. We have not examined their application.

I am disappointed that the Council chose to disregard our examination extension and the acknowledgement in this Report of improvements in the Council's updated policies and guidelines.

1.5.5 Council statement – speculative nature of findings

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.

Our response

We reject this view. We acknowledge that there is subjectiveness about some aspects of the use of public money, however our examination was performed using researched criteria. This was quite extensive, and our references are provided in Appendices 2 and 3. We analysed the relevant population, reviewed the applicable policies and procedures where they existed and reviewed subsequent revisions of policies and procedures as explained. We tested the selected transactions against the policies, procedures and researched criteria. We formed our findings and opinions from that work.

As we reported in section 1.1, we examined relevant policies and procedures 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.

1.5.6 Council statement – lack of factual basis for findings and recommendations

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. 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 Local Government Act clearly gives the Council wide power to spend its funds as it sees fit.

Our response

Section 2.1.2 provides the relevant law from the LG Act we refer to in this examination. It highlights that there are various provisions for spending funds and principles a council must observe in performing its role and functions.

All councils are accountable for their spending decisions, taking into consideration all relevant provisions in the LG Act.

Each section of this Report outlines our examination objective and approach. This approach is then used to raise any applicable findings and associated recommendations. We have linked each finding to our examination approach, relevant law and applicable Council policy.

1.5.7 Council statement – incomplete controls testing methodology

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.

Our response

Section 3.3 explains what we examined. As outlined in our letter to the Mayor dated 11 May 2018, our examination considered the controls relevant to our examination objectives. This included reviewing two key controls over credit card transactions to ensure expenditure was authorised and that it was a proper use of public money. Proper use of public money is discussed in section 3.3.2.

1.5.8 Council statement – inefficient audit process

The overall audit process lacked detailed planning; no audit plan (or timeline of activities) was provided to the Council (despite repeated requests). The letter received from the Auditor General on 11 May 2018, stated that the examination would be conducted during May 2018 to August 2018. However,

the examination has stretched up to June 2019. 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. Despite the substantial amount of time taken from May 2018 until receipt of the draft report in June 2019, 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, this has been in addition to the estimated time indicated above.

Our response

We did communicate an overview of the examination and the time frame referred to in our letter dated 11 May 2018. The letter followed a meeting to explain our process. It is not our practice to provide our detailed audit plans to entities subject to audit or examination.

The examination, which involved three councils, did take much longer than we expected in May 2018.

This was a combination of many factors including the breadth of different policy and process applying to transactions paid for by credit card; ensuring the examination approach, where relevant, was applied consistently across the three councils examined; and the extended policy review we performed in response to the Council's feedback. A significant amount of time went into procedural fairness. The final report has taken into account all the Council's feedback as we consider relevant from multiple exchanges of supporting correspondence. We acknowledged the Council's responses throughout the process. Our practice for all audits and examinations is to seek to ensure all matters are completely resolved in procedural fairness. We may not agree on all matters but we will report differences of opinion, as demonstrated by publishing the Council's views on this examination.

2 Background

2.1 Credit card overview

2.1.1 Benefits and costs of credit card use

A credit card can be 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 the 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.

Losing public trust may negatively 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 that a council, like other public sector entities, demonstrates proper and prudent expenditure behaviour when spending public money that meets legislative requirements, withstands Parliamentary and public scrutiny and maintains 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.

The framework is directed at 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 its decisions and actions support this aim.

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 its duties or to achieve its objectives (section 36 of the LG Act).

Accordingly, section 137 of the LG Act allows a 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:

- managing its operations and affairs in a manner that emphasises the importance of service to the community

- seeking to ensure that its resources are used fairly, effectively and efficiently
- achieving and maintaining standards of good public administration
- ensuring the sustainability of the council’s long-term financial position and performance.

These principles apply to this examination and are embedded in the following provisions of the LG Act:

- 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 their 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 supports the principles of the 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 on 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 that individual councils have their own expenditure policies and controls, which provide adequate direction and guidance to ensure the council can clearly demonstrate its proper use of public money. At the time of 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 City of Playford overview

2.2.1 Introduction

The Council is responsible for managing its local area of 345 km² with a population of over 90 000 and is a fast-growing outer metropolitan area.⁷ It provides a range of services,

⁷ City of Playford, *State of City Report 2018*, November 2018.

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. Figures 2.1 and 2.2 show the Council’s sources of income and expenditure incurred to deliver services to its community in these years.

Figure 2.1: Sources of income and expenditure incurred in 2016-17⁸

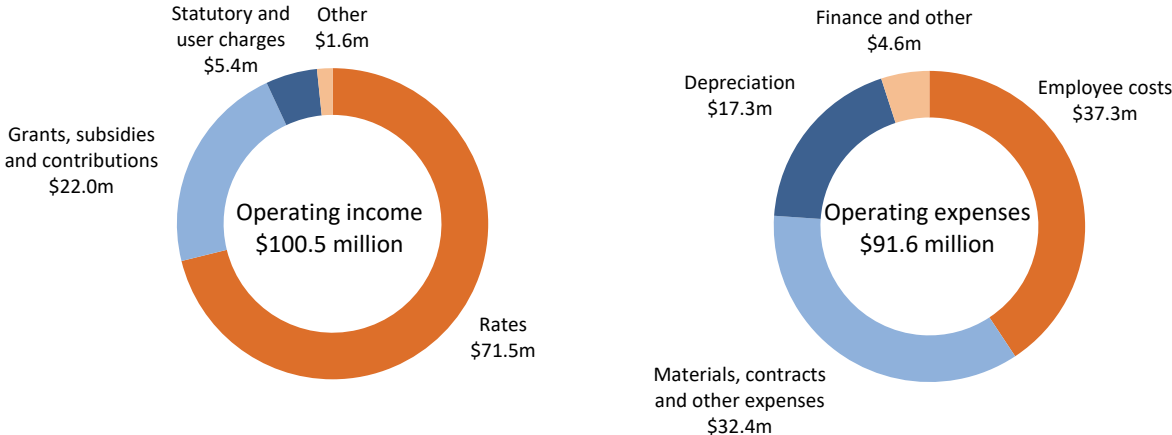
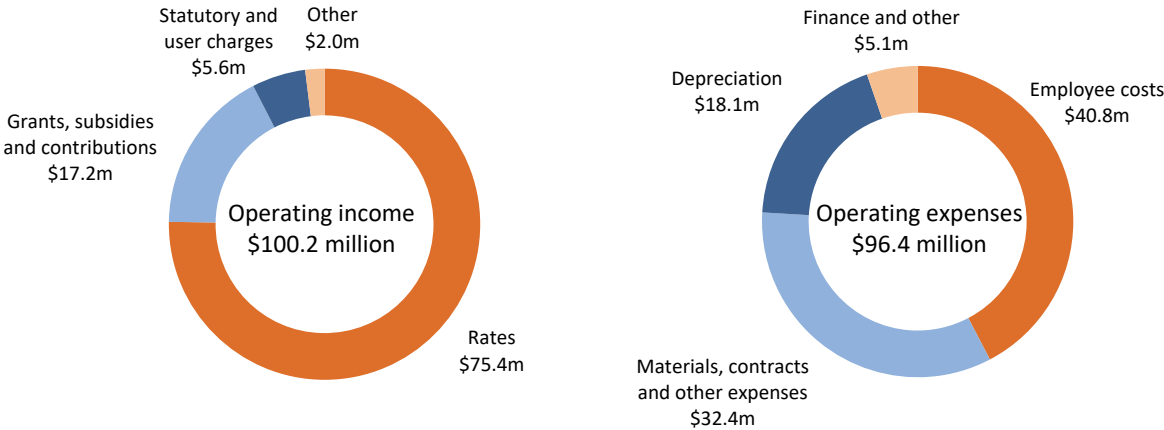


Figure 2.2: Sources of income and expenditure incurred in 2017-18⁹



2.2.2 Credit card use and expenditure

Figure 2.3 shows a summary of the Council’s credit card use and expenditure for the examination period (1 July 2016 to 30 April 2018).

⁸ Data sourced from the Council’s audited financial statements for the year ended 30 June 2018.
⁹ *ibid.*

Figure 2.3: Council credit card use and expenditure



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 p.a., being in the order of less than 3% of these expenses.

However, events in State and local government sectors in South Australia and other jurisdictions have shown that what public money is spent on (ie the 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 subject to significant public criticism for some of its expenditure behaviours in 2018.¹⁰

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

- creates a perception that an employee or council member received a private benefit in addition to the business benefit to the council
- is considered unusual for the council's purpose or function
- is considered to provide no benefit to the public.

We identified expenditure types of a sensitive nature by reviewing reports prepared by universities and government organisations in Australia and New Zealand. Appendix 1 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:

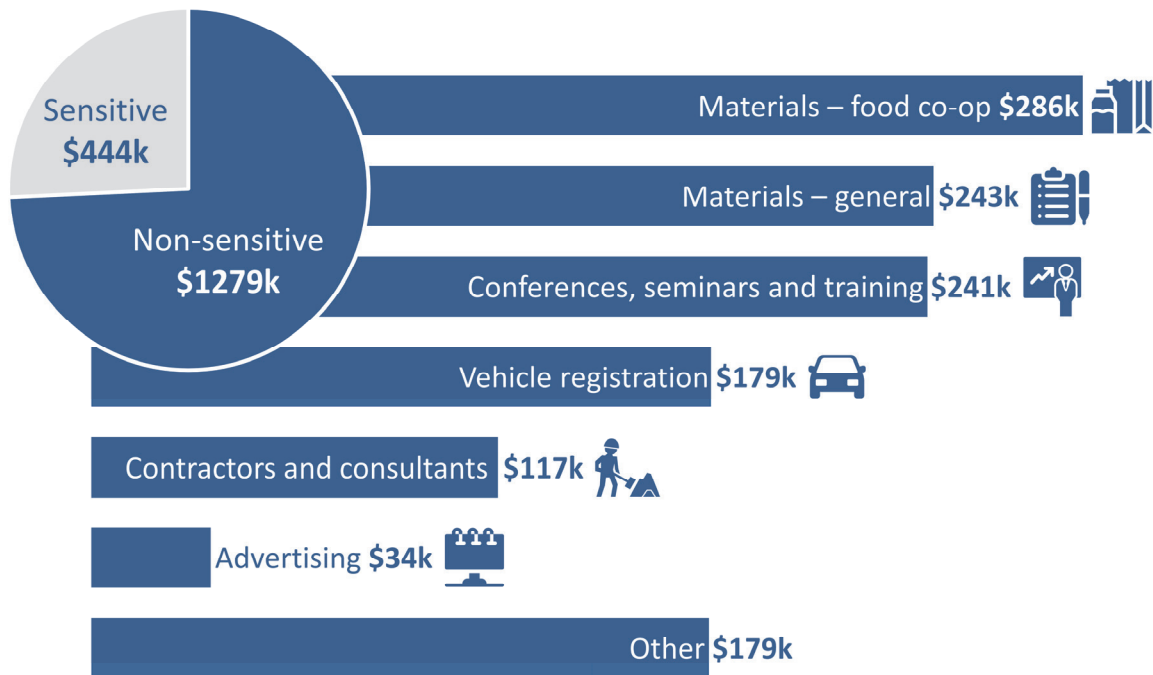
- travel and accommodation
- entertainment and hospitality
- gifts
- staff support, reward and recognition.

We analysed the Council's credit card expenditure data for the period 1 July 2016 to 30 April 2018 to understand the nature of its expenditure, and divided the total population into 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 2.4 and 2.5 show the Council's main credit card expenditure categories over the period examined.

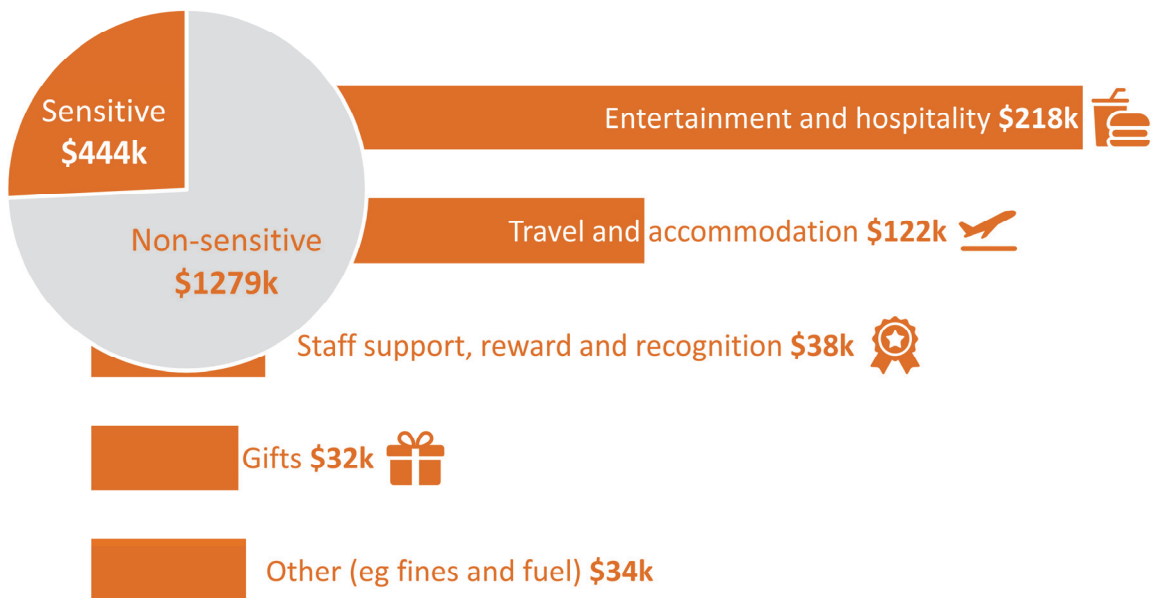
¹⁰ During our examination, the Onkaparinga Council was investigated by the SA Ombudsman over its credit card expenditure. Refer to the SA Ombudsman's report *Investigation into use of corporate credit cards by the City of Onkaparinga*, November 2019.

Figure 2.4: Non-sensitive credit card expenditure



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

Figure 2.5: Sensitive credit card expenditure



Source: Data obtained by the Council and classified by us 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 expenditure like materials and training. Sensitive spending is small when compared to the Council’s annual spend. As noted, however, there are risks associated with using credit cards. On this basis we considered it important to test some of the sensitive payments in this examination.

3 Audit mandate, objective and scope

3.1 Our mandate

The Auditor-General conducted this examination under section 32(1)(a) of the 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.¹¹

The PFAA provides for 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

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

3.3 What we examined and how

We examined the Council's:

- credit cards to determine whether they 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 governing certain expenses.

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

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 that the selected transactions were authorised and that they were independently reviewed
- expenditure complied with policy or to identify gaps in policy
- expenditure was consistent with the proper use of public money.

¹¹ The *Public Finance and Audit (Miscellaneous) Amendment Act 2018* came into operation on 13 September 2018 and amended section 32 of the PFAA to replace cost-effectiveness with effectiveness.

For the purpose of this examination and to address the 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 we examined. Using the categories we defined in section 2.2.2, seven of the transactions we selected were non-sensitive and 23 were sensitive type spending. This selection of 30 transactions was not intended to be a representative sample of the Council's total expenditure.

Refer to Appendix 3 for a list of the credit card transactions we 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 definition and in the context of the PFAA. This has been our longstanding view and was expressed, for example, in the Auditor-General's 2001-02 report on the examination of the McLaren Vale ambulance station,¹² where 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** [emphasis added]. 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.

¹² Report of the Auditor-General for the year ended 30 June 2004 *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*, February 2005.

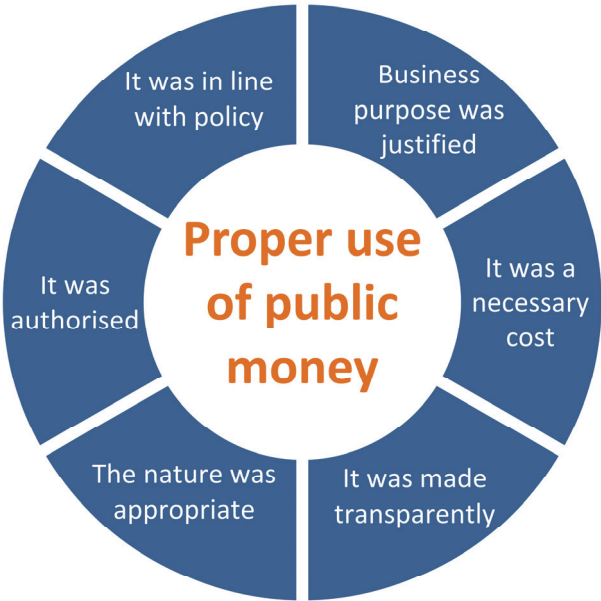
To assess whether credit card expenditure was a proper¹³ use of public money, we considered established standards of proper and prudent expenditure behaviour, including:

- 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 2).

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 or perform its functions, is 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 it achieved value for money
- the nature of the expenditure was **appropriate** for its intended purpose
- the expenditure decision was made **transparently** in that the transaction record was correct, adequate and explained the expense
- the expenditure was incurred in line with Council **policy** and was **authorised**. Where practical the approval of sensitive expenditure, in the absence of policy or in unusual circumstances, should be given when some key expenditure principles have been met and before the expenditure is incurred.

Figure 3.1: Expenditure principles



¹³ 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 start of our 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 we examined. Our work involved gathering information from a number of SA 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 Council staff. Council staff went to considerable effort to respond promptly to our information requests and inquiries.

3.3.3 Procedural fairness process

Our examination involved conducting an extensive procedural fairness process with the Council to discuss the accuracy of our findings and any mitigating controls, and to ensure proper context was provided.

Consistent with procedural fairness principles, on 16 October 2019 we provided the Council with a confidential copy of our draft report on the examination results and requested a written response. This followed discussions and multiple exchanges of supporting correspondence, from late June 2019, with the Council's CEO and Manager Finance. We also met with the Council's Mayor on 8 October 2019 to discuss and provide comments on the examination results for us to consider.

We received a formal response to the examination results from the CEO, on behalf of the Council, on 6 November 2019.

We have carefully considered all comments provided during the procedural fairness process and, where necessary, we have addressed them in finalising this Report.

On 17 January 2020 we provided the Council with a confidential final draft copy of this Report, which included the Council's formal responses and our conclusion in section 1.2.

3.4 What we did not examine

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 meet the examination objective
- confirm that the intended business purpose of the credit card expenditure was met
- examine the expenditure transactions that 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 compliance with new or revised expenditure policies that were effective after the period we examined.

4 Credit card use supports efficiency

What we found

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

Overall, credit cards were used for their intended purpose in that they were used for low-value and high-volume transactions, and most cardholders used their cards frequently.

The Council does not undertake a formal and regular analysis of its credit card expenditure to ensure the use of credit cards continues to support its efficiency.

What we recommended

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

- identify areas for further improvement in the use of credit cards
- inform its procurement strategy.

4.1 Introduction

Credit cards can provide an efficient and convenient method to purchase or pay for goods and services. This payment 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. The Council uses credit cards to pay for low-value and high-volume transactions that are authorised and for Council's business purpose.

4.2 Examination approach

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

- whether credit cards were issued to Council staff with a business need for one
- the frequency of credit card use by cardholders
- if credit cards were used for their intended purpose.

We also determined whether the Council regularly reviews credit card use and payments to support its efficiency.

4.3 Findings

4.3.1 Improvements in analysis of credit card use and expenditure

Recommendation

The Council should perform a formal and regular analysis of its credit card and accounts

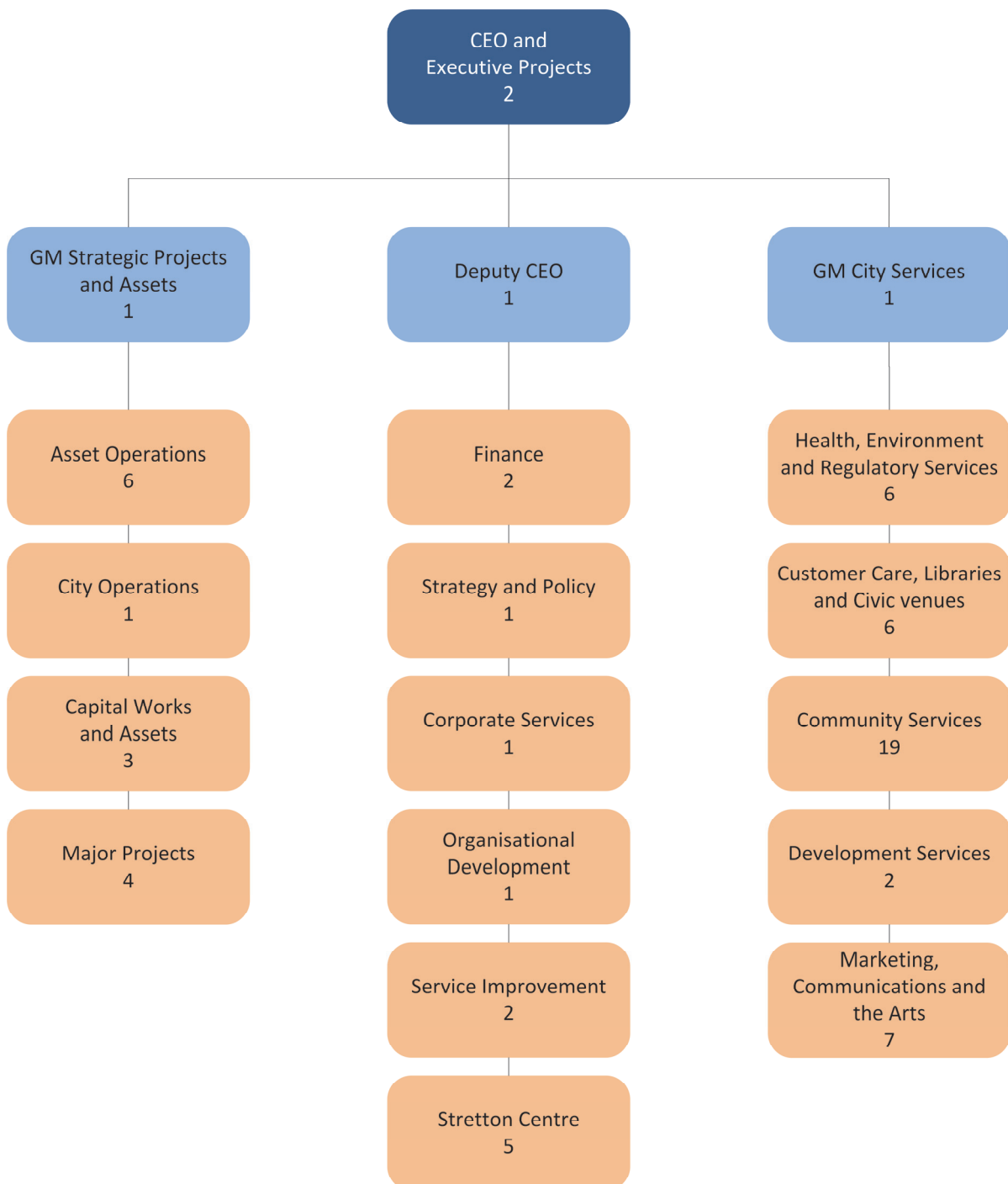
payable expenditure to:

- identify areas for further improvement in the use of credit cards
- inform its procurement strategy.

Finding

We found that credit cards were issued to Council staff across all business units and to officers in senior management positions, including each Executive member. Figure 4.1 shows the number of credit cards issued across the Council as at April 2018.

Figure 4.1: Distribution of credit cards across the Council



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

Overall, credit cards were used for their intended purpose in that they were used for low-value and high-volume transactions and there were minimal instances of transaction splitting, which management actioned promptly.

We found that the Council does not undertake a formal and regular analysis of its overall credit card expenditure to ensure the credit card use continues to support its efficiency. Analysing 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 is no longer a Council employee
- breaches of policies and credit card limits, and transaction splitting
- credit card transaction and monthly limits that are not appropriate for the cardholder to perform their role
- transactions that 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-volume transactions where it may be more efficient to use a credit card.

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

Council response

The Council accepted the recommendation and advised that it has implemented a more rigorous review and reporting process.

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 was overdue at the time we started our examination in May 2018.

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

- the expenditure principles the cardholder is required to apply, and clearly evidence, to ensure the 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 should consider updating its credit card policy and guidelines for the improvements we identified.

The Council should review its policies and guidelines 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:

- 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.

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

- provide for ethical and fair treatment of participants
- ensure probity, accountability and transparency in procurement operations.

5.1.2 Council policy

The Council has a policy for the use and management of credit cards. It is separate from the Council's procurement policy.

5.2 Examination approach

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

- current at the time of conducting our examination
- applied during the period we examined (1 July 2016 to 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, cardholders' responsibilities, monitoring and reviewing credit card expenditure
- provided guidance on expected expenditure behaviours.

In assessing the Council's policy and procedures we considered standards of policy and practices accepted by universities and government organisations in Australia and New Zealand. Appendix 1 provides a list of some of the reports we considered to identify any gaps in or further possible improvements to Council policy.

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

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

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

5.3 Findings

5.3.1 Credit card policy and procedures were reviewed in October 2018

Recommendation

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

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

Finding

The Council adopted a revised credit card policy and guidelines in October 2018. Its previous policy and procedures, dated February 2015, recorded a next review date of February 2017 and February 2018, respectively. Their review was overdue at the time we started the examination in May 2018. We also noted that there was a difference of a year between the review dates of the policy and procedures.

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

Council response

The Council accepted the recommendation and will take action accordingly.

5.3.2 Revised credit card policy and procedures could be further improved

Recommendation

The Council should consider updating its credit card policy and guidelines for the improvements we identified in this section and the recommendation we made in section .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 cards.

We noted that the revised credit card policy and guidelines 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 obtaining another copy where the original invoice is lost
- recording the transaction details and purpose.

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

- expenditure principles the cardholder is required to apply, and clearly evidence, to ensure the 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 record
- a requirement that the independent review of the transaction be undertaken by a person who did not benefit or could not be 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 time frame for completing the reconciliations. The revised guideline requires reconciliations to be completed by the due date but does not specify a date or time frame
- a requirement that credit card reconciliations be completed prior to termination of employment.

Council response

The Council accepted the recommendation and will take action accordingly.

6 Specific controls over credit card expenditure

What we found

Financial delegations

For the period we examined, 2016-17 and 2017-18, the Council was 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. We therefore concluded that it was unclear whether the power to spend money during the period we examined was delegated in line with the LG Act.

In responding to this finding, in July 2019 the Council changed 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 reviewed by a person other than the cardholder. We found that this independent review was, in our view, not effective for 14 of the transactions we 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 we reviewed, 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 Council staff had adequately explained the business benefit to the Council, and the public benefit, by incurring the expenditure for nine transactions. The Council was unable to provide records explaining 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 that the Council's revised credit card policy and guidelines requires the cardholder to provide a suitable description and the purpose of the expenditure to help 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 should consider, as it decides future risk priorities, having an internal auditor or legal advisor review the delegation process and documents to ensure they are a clear, complete and accurate record of the delegations under the LG Act.

Independent review

The Council should review a sample of credit card transactions to ensure the independent review is operating effectively and in line with the revised policy and guidelines.

A suitable senior officer should assess the Executive's credit card transactions against the expenditure principles and report any questionable transactions to the Executive group.

The Council should consider having its audit committee periodically review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purposes.

Expenditure principles

The Council should update its policies for:

- the expenditure principles that 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 expenditure.

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

6.1 Introduction

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:

- help 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 LG Act enables the CEO to delegate (or sub-delegate) a power or function 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 include:

... 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

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 of delegations of authority
- cardholders reconciled their expenditure to documents that substantiated the purchase and this was done on time
- credit card reconciliations and transactions were independently reviewed
- correct and adequate records were maintained to explain the expenditure and demonstrate the proper use of public money.

We assessed 30 credit card transactions against the following expenditure principles to determine whether the Council had demonstrated the proper use of public money. We did this by reviewing the Council’s records supporting 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 it achieved value for money
- the nature of the expenditure was **appropriate** for its intended purpose
- the expenditure decision was made **transparently** in that the transaction record was correct, adequate and explained the expense
- the expenditure was incurred in line with Council **policy** and was **authorised**. Where practical the approval of sensitive expenditure, in the absence of policy or in unusual circumstances, should be given when some key expenditure principles have been met and before the expenditure is incurred.

Refer to Appendix 3 for the credit card transactions we reviewed and a summary of our assessment of them against the expenditure principles.

We reviewed any policies covering 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 line with the Council's policy and legislative requirements.

6.3 Findings

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 should consider, as it decides future risk priorities, having an internal auditor or legal advisor review the delegation process and documents to ensure they are a clear, complete and accurate record of the delegations under the LG Act.

We consider better practice would be for sub-delegations to be clearly referenced to positions and not to individual employees.

Finding

The 2016-17 and 2017-18 instrument of delegations, which applied during the period we examined, records that 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 allowed under section 101 of the LG Act, subject to conditions and limitation, to the following positions:

- Senior Manager Finance
- Deputy CEO
- Manager Finance and Accounting.

The conditions and limitation specified refer to a separate Limit of Authority Schedule maintained by Finance. This is a spreadsheet that:

- lists user profiles, authority limits and officers' names in addition to the Senior Manager Finance, Deputy CEO and Manager Finance and Accounting
- is unclear about whether any limitation operates over the named individual or position
- provides a monetary limit but does not explain whether it applies to a single or type of transaction and whether it excludes 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.

Council staff 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 to expend funds within the approved annual budget.

As a result of the deficiency in the delegation process from the use of the spreadsheet schedule, we concluded that it was unclear whether the power to spend money for expenditure incurred during the period we examined, except for expenditure approved by the CEO, Senior Manager Finance, Deputy CEO and Manager Finance and Accounting, was delegated in line with the LG Act. This uncertainty increases the risk of the delegation being ineffective because any expenditure approvals based on the spreadsheet schedule beyond the CEO's explicit delegations to three positions would be unauthorised.

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 discussed in our report on governance in local government,¹⁴ delegations need to be made in line 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 changed 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.

Council response

The Council accepted the recommendation and will take action accordingly.

¹⁴ Report of the Auditor-General *Examination of governance in local government: February 2017*, page 18.

6.3.2 Deficiencies in the independent review of credit card expenditure

Recommendation

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

The Council should review a sample of credit card transactions to ensure the independent review is operating effectively. The transactions could either be selected randomly or target high-risk areas based on an analysis of credit card data 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 the improper use of public money. It is effective if the reviewer can exercise independent judgement. This means the reviewer is someone 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 that are unusual to the cardholder's responsibilities and activities
- has a reasonable understanding of expenditure policies and procedures
- has not benefited or could not be perceived to have benefited from the expenditure.

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

Finance staff also ensure reconciliations are completed, transactions are supported by tax invoices and account codes are correct. This ensures records are correct and satisfy financial and tax reporting requirements.

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

We also found that the independent review of credit card expenditure was, in our view, not effective for 14 of the transactions we 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
- the expenditure was not supported by correct and/or adequate records
- the expenditure was not necessary and/or appropriate
- the approval of the expenditure's purpose, where applicable, was not evidenced.

Further details of these findings are provided in sections 6.3.4, 6.3.5 and 6.3.6. Appendix 4 provides examples of our assessment against the expenditure principles.

We noted that the Council's revised credit card policy and guidelines provide clearer instructions on the cardholder's and direct manager's responsibilities. The revised guidelines require the cardholder to provide a suitable description of the expenditure and the purpose of the transaction to help 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.

Council response

The Council accepted the recommendation and advised that it has implemented a more rigorous review and reporting process.

6.3.3 Independent review of CEO's transactions could be improved

Recommendation

The Council should update its credit card policy to require the independent review of the Executives' credit card transactions.

A suitable senior officer should assess the CEO's credit card transactions against the expenditure principles to ensure the proper use of public money.

The Council's Executive group should review a report from the suitable senior officer of any questionable transactions to mitigate the actual and perceived risks of the misuse of credit cards and public money.

The Council should consider requiring its audit committee to periodically review a report of the CEO's credit card transactions to ensure the expenditure is reasonable and for business purposes. We consider this better practice which increases financial transparency, accountability and independent scrutiny.

Finding

The transactions we tested included expenditure incurred by some Executive members. The Council's credit card policy does not require 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 that 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 contain 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 any of the CEO's transactions that appeared inappropriate or unusual
- the Mayor may have benefited, or could be perceived to have benefited, from the expenditure and then would not be 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's, 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 policy 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 that are or 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 CEO's role. We formed our view that this is better practice after reviewing the way CEO expenses are overseen in other jurisdictions.¹⁵

Council response

The Council accepted the recommendation that a senior officer assesses Executive credit card transactions and will take action accordingly.

The Council did not accept the recommendation that the audit committee should periodically review the CEO's credit card transactions to ensure the expenditure is reasonable and for business purposes. This was because it is not the function of the Council's audit committee. The Council will instead report any transactions by exception to the audit committee where anomalies are identified.

¹⁵ For example, the Victorian Auditor-General's report *Fraud and Corruption Control – Local Government*, June 2019; Frankston City Council's, *CEO and Directors' Expense Reimbursement policy*, August 2017; and the Victoria State Government's, *Health and Human Services Guidelines for CEO and Executive Business Expense policy*, September 2017.

6.3.4 Business purpose was not clearly justified at the time expenditure was incurred

Recommendation

The Council should update its 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 supporting the 30 credit card transactions we tested. In our opinion the reconciliation records of 15 of these 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 ascertain the business purpose of the expenditure and identify any 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 cardholder for three transactions as the business purpose of the expenditure was not clearly justified. The reimbursements were sought and paid for after we started our examination. This was six months to two years after the original transaction dates.

For the remaining 12 transactions, we found:

- Council staff were unable to provide records explaining the business purpose of the expenditure for three transactions. We discussed them, where possible, with the cardholder and independent reviewer. Representations were made by Council staff to explain the business purpose, however without proper records it was still unclear if the explanation supported the transaction in question. On this basis, we concluded that for these transactions the Council had not clearly justified that the expenditure was for business purposes
- for nine transactions we were not satisfied that 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 justified 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.

Appendix 3 provides further details of these findings.

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 the 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 provides a clear explanation of its business purpose, including references to or a record of any prior approvals and policy requirements.

Council response

The Council accepted the recommendation to update its policies with relevant expenditure principles and will take action accordingly. While the Council supported the recommendation that the policies include the nature and extent of information needed to adequately justify the business purpose of the expenditure, it did not support the practicality of seeking approval for sensitive expenditure before it is incurred. This was on the basis that the recommended expenditure principles would guide the expenditure and pre-approval would negate the efficiency of using a credit card.

6.3.5 Not all expenses were supported by adequate records

Recommendation

The Council should 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 of expenditure that is outside of an approved policy and/or perceived to be unusual or not common practice should be evidenced, either by a signature or in an email, before the expenditure is incurred.

Finding

We reviewed the reconciliation records of the transactions we tested to determine whether they were correct and adequately supported the credit card expenses. 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 sensitive expenditure was not evidenced. These transactions related to expenditure that was uncommon and there was no Council policy
- the reconciliation record did not refer to other records supporting its business purpose. Such records might include prior approvals of the expenditure purpose, references to the relevant Council policy and specific budget approvals.

We concluded that the reconciliation records supporting the expense were inadequate for many of the transactions we reviewed. While we only tested 30 transactions, we consider this issue is important given the:

- sensitive nature of some 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 that adequately explain expenses funded by public money.

In the Auditor-General's 2001-02 report on the examination of the McLaren Vale ambulance station,¹⁶ 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 recordkeeping 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 such as FBT and GST).

The Council, in our view, is at risk of not being able to transparently demonstrate the proper use of public money. In some instances, this risk eventuated when transactions incurred by former employees were later reviewed by the Council and the records were found to be inadequate and did not clearly demonstrate the proper use of public money. The Council incurred further staff time and costs to take corrective action and recover these funds.

Council response

The Council supports the maintenance of adequate credit card records.

6.3.6 The expenditure incurred was not always demonstrated as necessary and/or an appropriate use of public money

Recommendation

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

Finding

Of the 27¹⁷ credit card transactions we reviewed, we were not satisfied for 17 transactions

¹⁶ Report of the Auditor-General for the year ended 30 June 2004 *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*, February 2005.

¹⁷ This excludes the three transactions that were reimbursed.

that 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 of the 17 transactions were made in line with approved policy, we concluded that the Council incurred an additional cost for minimal or no benefit to either the Council and/or the public.

The individual transaction amounts we tested were low value when compared to the Council's total expenditure. However, the Council is accountable for all expenditure it incurs.

It is important that cardholders exercise and demonstrate proper judgement in applying the expenditure principles when spending public money. This includes considering alternative options to ensure value for money is achieved.

We also concluded that the public may consider 16 of the sensitive expenditure transactions we reviewed to be an inappropriate use of public money. Examples of this included the purchase of alcohol and providing gifts to staff for personal events. Sections 7 to 9 provide further commentary on specific sensitive expenditure types, including our acknowledgement that this is our opinion and is a subjective assessment.

Council response

The Council considered that this is a general opinion, not a factual finding, and is not supported by evidence. The expenditure was incurred under the policies existing and operational during the examination period. The Council also responded that the Auditor-General has not provided any comments or observations on the quality and adequacy of the policies.

Our response

Our observations on the policies relevant to this examination are provided in sections 5.3, 7.3.1, 8.3.1 and 9.2.1.

7 Credit card payments for 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 selected credit card transactions for business expense items found there was a need for the Council to have policies and guidelines to govern these expenses.

We identified further improvements that could be made to the new policies and procedures, such as a 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 justified and, in our view, they were not always a necessary and/or appropriate use of public money.

It is our view that the following purchases are not a proper use of public money, other than in rare circumstances and where the business purpose is clearly justified:

- alcohol, unless for resale at official Council events
- coffee/lunch for offsite meetings between Council staff
- refreshments for celebratory events.

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 should consider updating 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 people or groups, to better understand the public's expectations of acceptable expenditure behaviours.

The Council should review its business expense transactions to ensure the new/revised policies and guidelines are implemented and operating effectively.

7.1 Introduction

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 their functions and achieve their objectives. This involves spending public money on business expenses that can

be justified and considered reasonable work-related expenses incurred by staff in performing their official duties.

Credit cards are used to pay for some business expenses, some of which we describe as sensitive expenditure. Business expenses such as travel, entertainment, hospitality and gifts incurred 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 use, misuse and wasting public money. It is important the Council has policies governing this expenditure and controls to reduce these risks and sustain public trust.

7.2 Examination approach

The Council did not have expenditure policies for its business expenses when we started our examination and during the period we 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 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, after we started our examination, advised us that it had made significant improvements in its administrative practices.

The Council adopted two new policies and guidelines for travel and hospitality expenses, dated 1 October 2018, before we communicated our examination findings. In completing the examination, we reviewed these documents to identify any further improvements. We did not assess whether Council staff complied with these new policies, as they applied after the period we examined.

7.3 Findings

7.3.1 Policy guidance for business expenses could be further improved

Recommendation

The Council should consider updating 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 people 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 should review its business expense transactions to ensure the new/revised policies and guidelines are implemented and operating effectively.

Finding

Policies for business expenses, in our view, should be based on principles that ensure the expenditure:

- demonstrates the proper use of public money
- is an 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 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 evidenced
- for some there was what we considered to be an inadequate record that the cardholder had assessed other options 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 before incurring the expenditure.

We expect that compliance with the new policies and guidelines, along with the improvements identified below, would address these findings and those discussed 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:

- management, approval and administrative arrangements. The policy requires employees, prior to travel, to provide a brief summary of the purpose of the travel, which must be approved by the relevant General Manager
- the restrictions that enable proper and prudent expenditure behaviour. For example, the guidelines provide thresholds for accommodation and meal expenses and specify that eligible costs exclude alcoholic beverages
- the requirement for exceptions to the policy to be escalated to the Executive for approval.

The new travel policy and guidelines, in our view, could be further improved by including:

- a set time frame for obtaining travel approvals in advance, where possible, to ensure airfares and accommodation expenses are not unreasonably high
- a requirement that the travel application clearly explains the travel purpose in terms of the business purpose, the expected benefits to the Council and outcomes; and confirms that 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
- international travel arrangements and the 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 process for Executive members' travel arrangements.

Hospitality policy and guidelines

The Council has defined hospitality expenditure to include food, drinks, gifts and entertainment that 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:

- allowable and non-allowable hospitality expenditure
- the conditions for catering at meetings, which extend only to basic sustenance as determined by the relevant manager
- reporting requirements
- the requirement for exceptions to the policy to be escalated to the Executive for approval.

The new hospitality policy and procedures, in our view, could be further improved by including:

- a policy requirement that any hospitality expenditure can only be incurred with reference to the Council's official functions and business purpose and must demonstrate the 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 Council through training/planning sessions but being cost-effective
 - it is reasonable in terms of cost and community expectations

- the definitions of business purpose, Council business and official functions
- an approval prior to the expenditure. The request should clearly explain the business purpose of the expenditure, who is attending the function/meeting, the expected benefits and outcome to the Council and a breakdown of the budgeted costs
- events where hospitality will be provided by the Council. These might include community events, a function to recognise the contribution of volunteers or hosting events 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) should also be covered.

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) that 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 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 sensitive expenditure 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 community sentiment did not align with its business practice. It also explained why some business practices were important and would continue, but that 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 to respond and develop its policies. We did not review the Onkaparinga Council's revised expenditure policies and guidelines in our examination.

Council response

The Council accepted the recommendation and will take action to consider updating its travel and hospitality policies and guidelines.

The Council will consider the appropriateness of community consultation on a case-by-case basis for future policy/procedure updates in line with its public consultation policy.

The Council has already set up a process to review its business expense transactions.

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, provide 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 of the travel.

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

Overall, we found the Council was unable to provide adequate records to demonstrate that:

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

Example 2 in Appendix 4 illustrates a travel expense that was supported by correct and adequate records explaining the expenditure and its business purpose.

7.3.3 Entertainment and hospitality expenses were not always a proper use of public money

Comment

The Council's new hospitality policy and guidelines, dated 1 October 2018, provide 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 lunches, 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, they were not always a necessary and/or appropriate use of public money. We believe that this was partly a result of the lack of policy guidance on this type of expenditure. As noted, the Council now has this policy guidance.

It is our view that the following purchases are not a proper use of public money, other than in rare circumstances and where the business purpose is clearly justified:

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

Appendix 3 provides details of transactions we concluded were not a proper use of public money.

7.3.4 Gifts were not always a proper use of public money

Comment

The Council's new hospitality policy and guidelines, dated 1 October 2018, do not allow for gifts to be bought for suppliers, customers and other external stakeholders.

Finding

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

The key risks in providing a gift are that:¹⁸

- the amount or nature of the gift is excessive and/or inappropriate for the reason it is being given
- it is given with a perceived or actual expectation of a favour in return
- 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, it now has a policy.

¹⁸ New Zealand Controller and Auditor-General, Good practice guide, *Controlling sensitive expenditure: Guidelines for public entities*, February 2007.

Our analysis of 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 given to an employee and gifts related to retirement, contractors, Christmas and Easter. Although some of these gifts were provided in line with the Council's recognition of staff policy, some expenditure amounts were reimbursed by cardholders in late 2018, while we were conducting our examination.

In the cases resulting in reimbursement, Council staff advised that they further investigated these payments and determined that they were not for business purposes. We assessed these transactions and concluded they were not a proper use of public money. The Council took appropriate corrective action by seeking reimbursement for these costs.

The Council's new hospitality policy and guidelines, dated 1 October 2018, do not allow for gifts to suppliers, customers and other external stakeholders. They require 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 for reward and recognition expenses

What we found

The Council adopted a revised employee recognition policy and guidelines, dated 13 February 2019, before we communicated our examination findings.

Our review of 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 of its recognition programs. Further, the reason for the recognition was not, in our opinion, clearly aligned with the Council's business purpose.

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

What we recommended

The Council should review its employee recognition policy and guidelines with a specific focus on staff performance and the expenditure principles.

8.1 Introduction

8.1.1 Relevant law

Section 99 of the LG Act describes the functions of a council's CEO, which include:

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

Section 107 of the LG Act requires a CEO to implement sound human resource management principles to ensure, for example, that 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 the 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 our examination (1 July 2016 to 30 April 2018).

While we were conducting our examination, the Council revised this policy and adopted an employee recognition policy and guidelines, dated 13 February 2019.

We noted the revised policy and guidelines provide:

- the recognition items that are allowable and that those not specified will not be at the Council's expense
- a list of permitted gifts and events
- specific items that are prohibited such as employee gifts, alcohol, vouchers, tickets to events, team drinks, team meals and morning/afternoon teas
- for a Christmas gift to be given to employees with more than three months of service, to a value up to \$50. The Executive is to review and approve these gifts.

We also noted that the following have been removed from the revised policy and guidelines:

- the reward for recognition of five years of service
- movie passes as gift rewards
- gifts to employees to celebrate personal events, such as births, marriages and engagements
- recognition programs for team performance and individual outstanding service (such as programs recognising employees for leading the way, going the extra mile, working together and bright ideas).

8.1.3 Relevant credit card expenditure

Of the 30 transactions we examined, seven payments related to expenditure incurred in line 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.

8.2 Examination approach

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

- were current at the time of conducting our examination
- applied during the period we examined (1 July 2016 to 30 April 2018).

When we assessed the seven credit card transactions against the expenditure principles explained 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 guidelines, dated 13 February 2019, before we communicated our examination findings.

In completing our examination, we reviewed the revised policy and guidelines only to determine whether the matters we initially identified were addressed. We did not assess whether Council staff complied with the revised policy, as it applied after the period we 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 South Australian Office for the Public Sector's *Reward and Recognition: Good practice guide for South Australian Public Sector managers* (SA recognition guide)
- the SA Ombudsman's report on the investigation of HomeStart Finance dated 10 March 2017.

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

The SA recognition guide supports recognising employee 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.

The 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, that is funded by public money and that strives to be a high performing organisation. The core principles are also consistent with the expenditure principles outlined in section 3.3.

The guide also notes that best practice research highlights that reward and recognition within the public sector can be highly complex. It suggests that a reward and recognition program does not have to be costly and gives examples that 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 SA Ombudsman 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 they promoted the proper use of public money.

Aligned with business purpose

The reason for recognising performance is aligned with business purposes where it contributes to achieving the Council's objectives. It also encourages behaviours that 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 has no additional cost to the Council.

It is important that 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, provides motivation and encourages high standards 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

Recommendation

The Council should review its employee recognition policy and guidelines with a specific focus on staff performance and expenditure principles. The Council should consider doing the following things in performing this review:

- to inform its decision on future practice, 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
- recognise staff for a high standard of performance to achieve the Council's objectives and the delivery of services to the community
- clearly define the standards of high performance for each recognition program
- align all recognition programs with the organisational objectives and values
- clearly link the reason for the recognition to the Council's business purposes
- ensure the nature of all rewards is appropriate and relevant to the performance or behaviour being recognised
- ensure that it is necessary to incur the cost and that the value of all rewards is modest or has no additional cost to the Council
- ensure the total cost of all recognition programs is modest and withstands public and Parliamentary scrutiny.

The Council should reconsider how it supports the staff social club in organising 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 to support social interaction amongst staff.

Some recognition programs, in our view, are not clearly aligned with business purposes and the policy intent of recognising performance. In our opinion, the standard of performance being recognised would be higher than satisfactory given staff are already remunerated for performing their roles.

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 of its recognition programs. Further, the reason for the recognition was not, in our opinion, clearly aligned with the Council's business purpose. The following are examples that illustrate this finding.

Personal events

The Council provides a gift to employees for personal events. The revised policy and guidelines limits these events to personal bereavement. The reason for the reward is not to recognise 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. 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 an employee for a personal event.

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.

Council staff advised that the Christmas events for 2016 and 2017 cost about \$19 000 and \$13 000, respectively. The costs 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 an \$810 payment to hire 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. We considered that the amounts incurred for entertainment, room set-up and decorations were unnecessary and an 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 that recognition is most effective when it is specific and provided immediately after the performance achievements.

In our opinion these events are not consistent with the principles of reward and recognition and relate more to providing staff support. Such events would typically be organised and funded by an entity's social club, and are activities separate from the entity and not funded by public money.

The Council may decide to contribute to a social club event (either financially or by allowing

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 of its use of ratepayer 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 decisions can withstand public and Parliamentary scrutiny.

8.3.2 Gifts to staff were not always necessary or appropriate

Finding

The Council's recognition programs include providing gifts 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 are provided to support staff in times of mourning.¹⁹
- A gift(s) is provided to staff for every five years of service (commencing at 10 years of service). The gift is a \$50 - \$150 store voucher.²⁰ The value of the gift 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 March 2017 report on the investigation of HomeStart Finance 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 that remuneration derived from positions held by Council staff should be considered sufficient and appropriate monetary compensation for performing their duties. This 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 gifts (movie passes, gift vouchers etc), other than in rare circumstances and where the business purpose is clearly justified, are not a necessary or appropriate use of public money given that employees are paid for performing their roles in line with their employment agreements.

¹⁹ The previous policy provided a gift for other celebratory occasions such as engagements, births and marriages.

²⁰ The previous policy provided gift vouchers to employees for specific outstanding service awards. This recognition program has not been included in the revised policy.

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

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 and value of loyalty of service rewards was considered unnecessary

Finding

The Council recognises the contribution made by Council employees by acknowledging their length of service to the community and organisation. The guidelines specify the years of service entitlements for every five years of service, commencing at 10 years of service, and those for an employee leaving the Council with 25 years or more of service and a satisfactory record.

The entitlements increase in value as the years of service increase. For example, \$60 is spent for 10 years of service and \$250 for 25 years of service and every five-year anniversary thereafter. The rewards include letters from the CEO/Manager, a day off with pay and/or a team morning/afternoon tea, a certificate, a \$50 - \$150 gift voucher, a photo with a plaque and an engraved watch up to the value of \$250 (for employees who leave the Council with 25 years or more of 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 that the nature and value of the reward can be easily justified and is demonstrably reasonable to the performance being recognised.

In our view, it is not necessary for the Council to incur all of the above costs to recognise an individual's years of service milestones. The Council should review the extent and frequency of the years of service being rewarded and identify alternative rewards that have little or no additional cost to the ratepayer.

8.3.4 Council response

The Council considers that this is a general opinion of the Auditor-General, not a factual finding, and is not supported by evidence. This general observation is accepted and will be actioned accordingly.

8.3.5 Our response

We reject the Council's comment that the finding is not supported by factual evidence. For further details refer to section 1.5.

9 Credit card payments for elected members' benefits

What we found

We examined three expenses incurred for the elected members' 2017 Christmas lunch and gifts. The Council's member support policy and guidelines provide 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 everyone who attended received a private benefit with little or no business benefit to the Council
- the Christmas gifts to the elected members were an unnecessary and inappropriate use of public money.

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

What we recommended

The Council should revise its Mayor support and elected member support policy guidelines to remove the provision of special functions.

To inform its decision on future practice, the Council should 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 obtain this information.

The Council's audit committee should regularly scrutinise sensitive expenditure that results in benefits to elected members to determine whether it is a proper use of public money.

9.1 Introduction

9.1.1 Relevant law

Section 77 of the LG Act provides for a council member to be reimbursed for expenses incurred in performing or discharging their official functions and duties. The expenses are of a kind prescribed and approved by the council (either specifically or under a policy that 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 help them perform or discharge their official functions and duties. The provision of facilities and services is at the council's discretion, subject to complying with the following requirements under section 78(2):

- (a) The council must specifically resolve that the provision of the facilities or services is necessary or expedient to the performance or 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 a 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, provide for the council members' allowances, support and expenses under section 77 of the LG Act. This policy applied during the period we examined. It covers 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 our 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 guidelines
- Mayor support policy guidelines.

9.1.3 Relevant credit card expenditure

Of the 30 credit card transactions we examined, four 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 was in line with the Council's member support policy and guidelines in force at the time.

9.2 Findings

9.2.1 Expenditure for elected members' lunch and gifts was not a proper use of public money

Recommendation

The Council should revise its Mayor support and elected members support policy guidelines to remove the provision of special functions, which we believe is not consistent with the intent of the LG Act. In doing so, to inform its decision on future practice, the Council should 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 obtain this information.

In future the Council should, in our opinion, better explain the business purpose and business benefit to the Council before incurring sensitive expenditure. The Council should maintain adequate records to support this explanation.

The Council's audit committee should regularly scrutinise sensitive expenditure that results in benefits to the elected members to determine whether it is a proper use of public money.

Finding

In examining the expenditure for the elected members' lunch and gifts 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 their official duties
- provide a list of people who attended the elected members' lunch.

Council staff advised that:

- the intent of the policy was to provide support for Council members in performing their official duties

- the policy enables from time to time elected members and the Executive to have special functions, such as Christmas or staff functions, that will be arranged by the CEO in consultation with the Mayor
- the then CEO approved a budget of \$3000 for the elected members' 2017 Christmas function
- the special function recognises the efforts of the elected members in performing their official duties throughout the year
- the special function is included in the policy to provide community visibility and enable the register of allowances and benefits to be complete.

A total of 26 people²¹ attended the lunch, which included elected members, Executive members and their partners.

Business purpose was not justified

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.

In our view, the Christmas lunch was a social function where everyone who attended received a private benefit with little or no business benefit to the Council. While the expenditure was in line with the Council's policy, in our opinion the cost of the elected members' Christmas lunch was not a proper use of public money.

The expenditure was unnecessary and inappropriate

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

Non-compliance with the policy

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

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

²¹ Not all invitees attended the lunch.

Overall, we concluded that the expenditure on the elected members' Christmas lunch and gifts was an improper use of public money. Continuing this practice exposes the Council to the risk of negative public and Parliamentary scrutiny.

Council response

The Council considers the Auditor-General's recommendation is a general opinion. A policy is in place that allows for such functions. However due to the sensitivities of the item, the Council notes the Auditor-General's opinion and will review the elected member support policy and guidelines.

The Council will continue to consult with its community in line with the community consultation policy.

The Council has a legislated gifts and benefits register, which is publicly available, and has an elected members support policy that outlines what benefits the elected members get in support of their role.

Appendix 1 – 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 that we applied to this examination.

Report	Sensitive expenditure categories identified
New Zealand Controller and Auditor-General, Good practice guide: Controlling sensitive expenditure: Guidelines for public entities, February 2007 ²²	<p>Travel and accommodation</p> <p>Entertainment and hospitality</p> <p>Goods and services – sale of surplus assets, loyalty reward scheme benefits, private use of entity assets</p> <p>Staff support and welfare – clothing, care of dependants, social club activities, farewells and retirements, staff sponsorship</p> <p>Other – gifts, donations, corporate boxes, communications technology</p>
ACT Audit Office, Auditor-General’s report, Report No.6/2016 Management and administration of credit cards by ACT government entities, June 2016	<p>Examples of sensitive expenses include hospitality (flowers, gifts, alcohol) and communications equipment (mobile phones, pocket PCs, phone cards)</p>
Frankston City Council (VIC), CEO and Directors’ expense reimbursement policy, August 2017	<p>Communications equipment – mobile/smart phone, laptop/ipad/computer</p> <p>Meals and refreshments</p> <p>Training and education – events, conferences, formal study</p> <p>Memberships</p> <p>Travel</p> <p>Expenses not reimbursed include fines, donations/tips, gifts, hotel mini-bar, in-room movies, alcohol, personal items (eg snacks, confectionery)</p>
Victoria Government, Health and Human Service Guidelines for CEO and Executive Business Expense policy, September 2017	<p>Travel and accommodation</p> <p>Meals and hospitality</p> <p>Alcohol</p> <p>Fines and penalties</p> <p>Loyalty programs/Award-based memberships</p>
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>Entertainment</p> <p>Travel</p> <p>Gifts – staff, elected members and community members</p> <p>Personal transactions</p> <p>Fines</p> <p>Fuel</p> <p>Online payment methods (eg PayPal)</p>

²² Appendix 1 of the guidelines provides a list of reports covering aspects of sensitive expenditure.

Report	Sensitive expenditure categories identified
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, Internal Audit, Use of Purchase Cards, July 2018	Entertainment – provision of food or drink (including alcohol) Gifts, rewards and recognition Personal transactions Fines Online payment methods (eg PayPal)
Victoria University of Wellington (NZ), Sensitive Expenditure Policy	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

Appendix 2 – Expenditure principles

We assessed whether credit card expenditure was a 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 is summarised below.







Report	Expenditure principles
<p>New Zealand Controller and Auditor-General, Good practice guide: Controlling sensitive expenditure: Guidelines for public entities, February 2007</p>	<p><i>The expenditure should be:</i></p> <ul style="list-style-type: none"> • <i>subject to the standards of probity and financial prudence that are to be expected of a public entity; and</i> • <i>able to withstand Parliamentary and public scrutiny.</i> <p><i>Those standards apply the principles that expenditure decisions:</i></p> <ul style="list-style-type: none"> • <i>have a justifiable business purpose</i> • <i>preserve impartiality</i> • <i>are made with integrity</i> • <i>are moderate and conservative, having regard to the circumstances</i> • <i>are made transparently</i> • <i>are appropriate in all respects.</i>
<p>NSW Government Department of Trade and Investment (NSW), Hospitality and entertainment policy, April 2014</p>	<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> <ol style="list-style-type: none"> <i>i. be for official purposes only</i> <i>ii. be properly documented</i> <i>iii. 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> <i>iv. be reasonable for the circumstances, and publicly defensible</i> <i>v. be approved by a Manager with appropriate delegation in writing ... Where possible, approval should be obtained prior to incurring the expenditure ...</i>




Report	Expenditure principles
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"> • <i>is considered reasonable and cost effective;</i> • <i>it can be supported by a specific approved budget allocation;</i> • <i>it is able to withstand public scrutiny;</i> • <i>it is for official purposes; and</i> • <i>it complies with legal, financial, audit and ethical requirements.</i>
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"> • <i>people attending the event are predominantly from organisations other than those within the public sector;</i> • <i>primary purpose is for the government entity to establish or maintain a business relationship with external people and organisations; and</i> • <i>hospitality event is designed to progress government priorities and outcomes.</i>
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"> • <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> • <i>Impartiality ... expenses should be based on merit and without bias and should be applied consistently and with fairness;</i> • <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>









Report	Expenditure principles
	<p><i>Business expenses must be all of the following factors:</i></p> <ol style="list-style-type: none"> 1. <i>be for the benefit of the health service;</i> 2. <i>be modest, appropriate and reasonable;</i> 3. <i>ensure value for money; and</i> 4. <i>be supported by the appropriate approvals and supporting documentation.</i>
<p>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>	<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"> • <i>amount spent is within the public entity's approved budget</i> • <i>expenditure is necessary to exercise the public entity's powers or carry out its functions</i> • <i>expenditure represents value for money...</i> <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"> • <i>prohibiting entertainment or if entertainment is allowed, establishing strong controls</i> • <i>specifying limits for overnight accommodation, meals and incidental expenses, including whether alcoholic beverages are allowable</i> • <i>prohibiting the use of credit cards to purchase gifts or providing guidance on what is an acceptable gift and maximum value</i> • <i>restricting payments of travel expenses to staff and elected members only</i> • <i>prohibiting minibar purchase, in-room movies and other similar expenses of private nature</i> • <i>prohibiting personal transactions ... and payment of fines.</i> <p><i>... requiring cardholders to provide an adequate description of transactions where their nature and use is not evident from the tax invoice.</i></p>

Report	Expenditure principles
University of New South Wales, Credit card policy, November 2017	<p><i>All expenses must be for a legitimate University purpose, meaning they are reasonable and appropriate in the circumstances, and publicly defensible.</i></p>
University of New South Wales, Business expense policy, November 2017	<p><i>The expenditure must not be or perceived to be excessive and must meet the following characteristics:</i></p> <ul style="list-style-type: none"> <i>• necessary to perform a valid business purpose fulfilling the mission of the University;</i> <i>• reasonable in that the expense is not extreme or excessive, and reflects a prudent decision to incur the expense;</i> <i>• appropriate in that the expense is suitable and fitting in the context of the valid business purpose; and</i> <i>• allowable according to the terms of any federal regulation, sponsored contract or University policy.</i>
The Barossa Council, Hospitality policy, December 2017	<p><i>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:</i></p> <ul style="list-style-type: none"> <i>• reasonable in terms of cost and frequency, having regard to accepted community practice and expectations of the Barossa as a premium winemaking region;</i> <i>• open, transparent and available for scrutiny by both internal and external audit processes; and</i> <i>• applied in accordance with Council's Procurement Policy and delegated authorities which are made in accordance within the adopted budget.</i>
Victoria University of Wellington (NZ), Sensitive Expenditure Policy	<p><i>The University expects all staff involved in arranging, making or approving sensitive expenditure:</i></p> <ol style="list-style-type: none"> <i>i. to do so only for University purposes;</i> <i>ii. to exercise prudence and professionalism;</i> <i>iii. not derive personal financial gain;</i> <i>iv. to act impartially;</i> <i>v. to ensure the expenditure is moderate and conservative in the context of the given situation;</i> <i>vi. to have read and adhered to relevant University policy.</i>

Appendix 3 – Credit card transactions – summary of findings


	Date	Expense category	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
	2016						
1	18 Jul	Contractor – Other	Flights to Melbourne (two people)	Webjet	1 887.32	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>
2	18 Jul	Entertainment	Lunch meeting with one external client	Restaurant	79.50	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>
3	10 Aug	Telephones – Mobile	Mobile phone charges	Telstra	682.60	Not applicable	<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>
4	15 Sep	Entertainment	Day spa voucher	Adelaide Day Spa	559.00	No policy	<p> 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.</p>








	Date	Expense category	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
5	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.
6	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, it was not necessary to incur the cost in performing the Council's functions.
7	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 line with Council policy and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.
2017							
8	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.

	Date	Expense category	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
9	24 Mar	Materials – Uniforms	Uniform	Sportsgirl	80.00	Corporate Uniform and Dress Image	<p> The Council clearly demonstrated proper use of public money.</p> <p> We identified a need to improve reconciliation records to adequately explain the expense and its business purpose at the time it was incurred.</p>
10	24 Apr	General Expenses	Traffic infringement	SA Police	804.00	Motor Vehicle and Fleet	<p> The Council clearly demonstrated proper use of public money.²³</p> <p> We identified a need to improve reconciliation records to support the business purpose at the time expenditure was incurred.</p>
11	26 Apr	Entertainment	Watch – retirement gift	Bradford Exchange	249.95	Recognition of staff	<p> 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.</p> <p> In our opinion, the purchase of a gift to paid staff was not proper use of public money.</p>
12	16 Jun	Entertainment	Movie tickets rewards and 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>

²³ The Council was required to pay the fine as Council staff were unable to identify the driver of the vehicle.

	Date	Expense category	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
13	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>
14	28 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 line with Council policy and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p>
15	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	16 Oct	Advertising	AFR special report	Fairfax Media Group	11 099.00	Procurement	<p> The Council clearly demonstrated proper use of public money.</p>
17	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 or appropriate to incur the cost in performing the Council's functions.</p>

	Date	Expense category	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
18	4 Dec	Entertainment	Executive Christmas lunch (nine 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.
19	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.
20	7 Dec	Materials – Food & Drink	All staff Christmas 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.
21	8 Dec	Materials – General	Mayor Christmas gifts for Councillors – book. Internal purchase within Council of a Council 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.
22	8 Dec	Materials – General	Christmas gift for Mayor from CEO and 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.
23	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.
24	15 Dec	Materials – General	Cruise and 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.

	Date	Expense category	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
	2018						
25	29 Jan	Materials – Food & Drink	Deposit for catering	Caterer	2 000.00	Procurement	 The Council clearly demonstrated proper use of public money.
26	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.
27	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 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.
28	4 Apr	Material – Food & Drinks	Staff morning tea	Foodland	76.02	No policy	 In our opinion, the purchase of alcohol for staff is not proper use of public money.  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.
29	6 Apr	Seminars/conference	ALGA conference registration	Australian LGA Deakin	1 954.00	Members Support	 The Council clearly demonstrated proper use of public money.
30	11 Apr	Materials – Food Coop	Meat	Meat supplier	1 153.67	Procurement	 The Council clearly demonstrated proper use of public money.

Appendix 4 – Credit card expenditure – examples

The following examples show how we assessed credit card transactions against the expenditure principles and formed our conclusion. These transactions were selected for illustrative purposes only and are not considered more important or significant than the other transactions we examined (see Appendix 3).

1 Example 1 – Gift for staff

1.1 Transaction details

Credit card transaction				
Expense category	Supplier	Expense description	Date	Amount (\$)
Entertainment	Adelaide day spa	Day spa voucher	15/9/16	559

1.2 Transaction reconciliation records

This 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 purposes. It also did not record the gift voucher recipient.

The credit card system recorded that the transaction was independently reviewed by the then 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 and gift voucher recipient were no longer Council employees at the time of our examination.

Council staff advised that:

- 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.

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

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 the expenditure was incurred. The reimbursement records did not explain why the reimbursement was sought.

1.4 What we found

Our assessment of the transaction was based on a review of the Council's records supporting and explaining the expenditure and discussions with 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 that:

- 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 that finance staff questioned the transaction at the time they performed their review
- there was a lack of records to support Council staff's representation that the voucher was to recognise the long hours worked by a Council employee.

The SA Ombudsman's March 2017 Report on the investigation of HomeStart Finance 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.

1.5 What we concluded

We concluded that, for this transaction, the independent review and finance staff's review did not effectively 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 purposes and 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 line with documented Council policy, and common Council practices, and there was no record that it was authorised before being incurred.

Consistent with the SA Ombudsman's view, it is our view that it is inappropriate to provide a Council employee with a gift for the hours they have worked. Employee remuneration should be in line 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.

2 Example 2 – Conference fees

2.1 Transaction details

Credit card transaction

Expense category	Supplier	Expense description	Date	Amount (\$)
Seminars/conferences	Australian LGA Deakin	Councillor and mother registration 2018 ALGA conference	06/04/18	1 954

2.2 Transaction reconciliation records

This credit card transaction was supported by a 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.

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.

Council staff advised that:

- 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 the Council to pay
- the Councillor reimbursed the Council for their partner's cost.

2.4 What we found

Our assessment of the transaction was based on a review of the Council's records supporting and explaining the expenditure and discussions with 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 record that the Council resolved for two Councillors to attend the ALGA National General Assembly to be held in Canberra on 17-20 June 2018.

The expenditure was made in line with the Council's member support policy which 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 the Councillor reimbursed the Council for the travel and attendance costs of their family member.

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

2.5 What we concluded

We concluded that:

- the Council had clearly justified that the conference fee was for business purpose
- the expenditure was made in line with Council policy and was authorised
- the transaction was supported by correct and adequate records that explained the business purpose of the expenditure
- the 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.

3 Example 3 – Training study assistance

3.1 Transaction details

Credit card transaction

Expense category	Supplier	Expense description	Date	Amount (\$)
Training	ATO	CONFIDENTIAL – Study Assistance	28/06/17	10 000

3.2 Transaction reconciliation records

The transaction reconciliation records were:

- payment confirmation of \$10 054 to the Australian Tax Office for the University of Canberra on 27 June 2017 (\$10 000 payment plus \$54 credit card fee)
- a study assistance application form signed by the relevant General Manager recommending the study assistance. The relevant General Manager was an appropriate delegate with authority to spend Council funds
- a study assistance application form endorsed by the then CEO
- a University historical e-statement of account for two of the three course units, which provided an outstanding course fee of \$27 328.
- the results, which evidenced that the course was completed on 8 June 2017.

The reconciliation records did not provide any further information to justify that the training assistance of \$10 054 was for Council's business purposes.

3.3 Policy, guidelines and discussions with Council staff

We asked Council staff to explain the business purpose of the \$10 054 study assistance expenditure and to provide the relevant Council policy and any other records to support the transaction.

The key parties for the transaction were no longer with the Council. Other staff relayed their understanding of the transaction.

Our review of the reconciliation records found that the study assistance application form referred to the Council's study assistance guidelines. After further inquiry, Council staff advised that, based on the limited records supporting this transaction, the Council's training development policy and study assistance guidelines, dated 25 May 2010, may have applied to this transaction.

The study assistance guidelines, which existed at the time this transaction was incurred, state that:

- new employees who are either undertaking or commencing study at the time of joining the Council may apply for study assistance
- the Council may support postgraduate study at a university that is relevant to the staff member's position or career goals and the needs of the workplace
- study assistance is negotiated and approved as part of performance management and development discussions
- in calculating and approving an appropriate allocation of study assistance, the manager will take into account the employee's capacity to manage both study and work commitments, how their study needs can best be supported, the business requirements of the local area, and the number of staff requests for study assistance and how this can be managed fairly and equitably
- study assistance is approved for one academic period. Ongoing support is dependent on a satisfactory level of work performance and evidence of successful progress with studies
- it is preferred the employee pays the upfront HECS or tuition fee for the study period. Pending successful completion of the study undertaken, the Council will reimburse an employee for fees paid to the institution according to the reimbursement rates listed in the guideline
- the maximum of \$4000 per calendar year is reimbursed for postgraduate diplomas and degrees.

3.4 What we found

Our assessment of the transaction was based on a review of the Council's records supporting and explaining the expenditure, discussions with Council staff and the study assistance guidelines operating at the time. We found that the study application form records:

- the employee as a full-time employee on a fixed term contract with a commencement date of 2016. We were advised the employee commenced with the Council on 15 August 2016
- that the employee started the course on 20 February 2016, prior to commencing employment with the Council
- that the employee applied for study assistance on 27 June 2017, after completing the course on 8 June 2017

- no specific details of the subjects to be undertaken in the academic year to support the total cost of \$10 000. Attached to this form was the historical e-statement of account and results. These records indicated that the course covered three units and the total outstanding fee was \$27 328, which excludes the HECS paid by the employee of \$9672
- that the employee had attached proof of study approval prior to commencement of study for which payment is being claimed (eg the relevant section of the employee's performance management plan). This document was not attached to the reconciliation records
- that the employee advised that they will arrange the payment of upfront fees to the university. The historical e-statement of account evidences that there was no amount outstanding.

We found that the amount paid of \$10 000 was greater than the maximum reimbursement of \$4000 per calendar year as provided in the study assistance guidelines. Council staff were unable to provide any further records to:

- explain why the amount was not in line with these guidelines
- support that the study was for business purpose, noting it exceeded the maximum calendar year reimbursement amount. For example, records to support approval for the study assistance at the commencement of employment with reference to the employee's performance management plan
- explain why the amount was not paid directly to the employee in line with the study assistance guidelines, given the employee had paid the fee upfront.

Council staff further advised that the payment was made without the advice of the finance team. The finance team identified the payment when the annual FBT return was prepared and the FBT was reported on the employee's payment summary.

3.5 What we concluded

We concluded that:

- the Council paid \$10 000 of an employee's HECS
- the payment exceeded the Council's policy and guideline of \$4000 per calendar year
- the payment was approved by a financial delegate and the then CEO
- the Council did not maintain adequate records to demonstrate compliance with the Council's policy and guidelines
- the Council did not maintain adequate records to support the expenditure's business purpose and the decision to exceed the amount specified in the guideline.

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

Appendix 5 – Abbreviations used in this Report

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 ²⁴
Business purpose	Where the expense is incurred for the Council to meet its objectives and deliver services to its community, is spent within an approved budget and provides a public benefit
CEO	Chief Executive Officer
Credit/Purchase card	Some Councils refer to it as a purchase card. In this Report we use the term credit card
Hospitality	The provision of food, beverage, accommodation, transportation and other amenities at the entity's expense to people not employed by the entity ²⁵
LG Act	<i>Local Government Act 1999</i>
LGASA	Local Government Association of South Australia
Official travel	Travel undertaken for the purpose of transacting and advancing the agency's business, which must only be undertaken where there is a demonstrated need ²⁶
Onkaparinga Council	City of Onkaparinga
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 ²⁷
PFAA	<i>Public Finance and Audit Act 1987</i>
Public money	Both ratepayer and taxpayer (government grant funding)
Reconciliation process	Where cardholders reconcile their credit card expenditure, recorded on the credit card statement, to documents that support the purchase (eg tax invoices)

²⁴ Victoria State Government Health and Human Services 2017, *Guidelines for CEO and Executive Business Expense Policy*, September.

²⁵ *ibid.*

²⁶ Australian Government's Australian Digital Health Agency 2016, *Travel, Allowances and Expenses Policy*, V1.1, 12 September.

²⁷ New Zealand Controller and Auditor-General, *Good practice guide, Controlling sensitive expenditure: Guidelines for public entities*, February 2007.

Term	Description
SA recognition guide	South Australian Office for the Public Sector, <i>Reward and Recognition: Good practice guide for South Australian Public Sector managers</i>
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 ²⁸
The Council	City of Playford

²⁸ *ibid.*

