

Report 4 of 2020

Examination of credit card
use and management:
The Coorong District Council



Report of the Auditor-General

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Dear President and Speaker

Report of the Auditor-General: Report 4 of 2020 *Examination of credit card use and management: The Coorong District Council*

As required by the *Public Finance and Audit Act 1987* (PFAA), I present to each of you Report 4 of 2020 *Examination of credit card use and management: The Coorong District Council*. As required by the PFAA a copy of the report was also delivered to The Coorong District Council.

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 The Coorong District Council.

I concluded that The Coorong District Council 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 Coorong District Council.

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

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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 Coorong District Council (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

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

efficiency and 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.

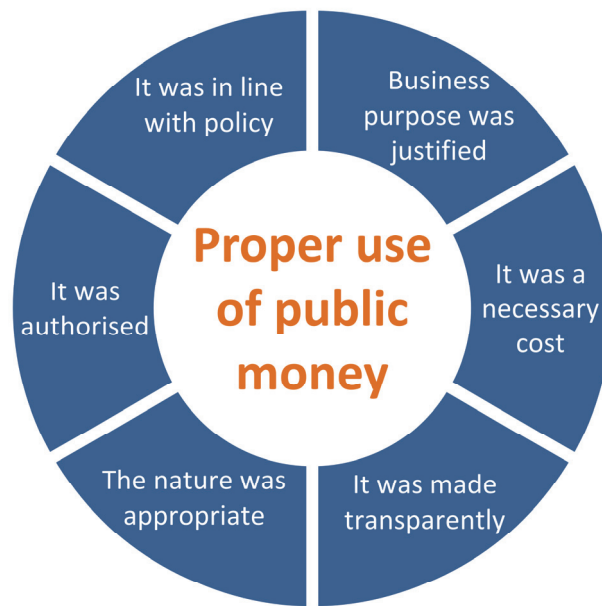
We also examined two key controls over credit card expenditure to ensure it was authorised and detected the misuse and/or waste of public money. We tested 36 selected credit card transactions³ to determine whether:

- 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 36 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 new 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 3 of 2020 *Examination of credit card use and management: City of Playford*.

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

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 most 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 Council's delegation documents, which did not clearly reflect the financial delegation process and may not accurately reflect the Council's intention when delegating the power to spend the Council's money
- the Chief Executive Officer's (CEO's) 2016-17 and 2017-18 sub-delegations of power to the Mayor to spend the Council's money were not in line with the *Local Government Act 1999* (LG Act) and were invalid
- 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
- 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 the Mayor and Council staff across all business units.

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.

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.

Contrary to its policy, the Council did not review its credit cards during the period we examined (22 months).

Credit card policy and procedures (section 5)

The Council adopted a new credit card policy in May 2019 that provides more direction and guidance on the use and management of credit cards. We found it could be further improved by including:

- a definition of official business purpose
- further instruction to ensure correct and adequate records are maintained to support and explain the expenditure
- 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, in our view the Council's delegation documents did not clearly reflect the delegation process. We found:

- the effect of the conditions and limits to the delegation made to the CEO was unclear
- the scope and effect of the delegations and sub-delegations were unclear
- the delegation documents may not accurately reflect the Council's intention
- a monetary limit is stated but the documents do not explain how it is to be applied
- delegations are referenced to people rather than positions. The Local Government Association of South Australia (LGASA) provides guidance to the local government sector on the delegations framework that suggests referencing sub-delegations to positions rather than people
- a formal instrument of the CEO's sub-delegations is not maintained.

For the same period, we concluded that the then CEO's 2016-17 and 2017-18 sub-delegations to the Mayor of the power to spend Council money were not in line with the LG Act and were invalid.

Independent review

Our review of 36 credit card transactions found that all but two transactions were reviewed by a person other than the cardholder.

We found, however, that the independent review was not effective for 17 of the 36 transactions we reviewed. 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 new credit card policy does not provide for the independent review of credit card transactions.

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, of some expenditure transactions we reviewed. The Council was unable to provide records that explained the business purpose for four 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.

Credit card payments for business expenses (section 7)

Our review of the selected credit card transactions for business expense items found the Council needed to have policies and guidelines to govern these expenses.

We found that the credit card acquittal documentation for:

- five transactions did not evidence the prior approval for the travel
- six transactions did not adequately explain, in our opinion, the business purpose and expected benefits to the Council for the travel expenditure.

Council staff were unable to provide any further records to support the request and approval to travel for four transactions.

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.

We found that credit cards were used to pay for gifts to staff and external parties. We note that the Council's new credit card policy, dated May 2019, provides direction on the purchase of flowers or gifts under certain circumstances, including for staff. The new policy does not limit how much can be spent on gifts for the various circumstances.

Credit card payments for reward and recognition expenses (section 8)

Our review of the selected credit card transactions found the Council needed to review its employee recognition policy and procedure.

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 always, 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)

Our analysis of the Mayor's transactions over the period we examined found that most of the expenditure related to travel expenses. In our opinion, the Mayor's travel could be arranged, potentially more efficiently, by Council staff. The remaining expenditure was for small amounts and we concluded that these expenses could be reimbursed in line with the Council's elected members allowance, benefits and support policy.

We found, however, that this policy does not include necessary restrictions on travel and hospitality expenditure to ensure the proper use of public money.

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
 - confirm individual cardholder limits are reasonable and enable cardholders to perform their roles and responsibilities efficiently
 - confirm that the reason for issuing a credit card and its subsequent use remains appropriate and supports efficiency
 - inform its procurement strategy (section 4.3.1)
- consider updating its credit card policy for the improvements we identified (section 5.3.1)
- ensure all delegations and sub-delegations are made in line with the LG Act (section 6.3.2)
- clarify the effect of the conditions or limitations contained in its instrument of delegations (section 6.3.1)
- ensure its instrument of delegations clearly and accurately reflects the powers and functions delegated. The information contained in the Instrument of Delegations is consistent within itself and other relevant documents (section 6.3.1)
- have the CEO maintain a signed formal instrument of sub-delegations separate from the instrument of delegation by the Council (section 6.3.1)

- update its new credit card policy to require an independent review of credit card expenditure and document the procedures for this. Reinforce to staff the importance of the independent reviewer’s responsibility (section 6.3.3)
- review a sample of credit card transactions to ensure the independent review is operating effectively and in line with the new/revised policies (section 6.3.3)
- periodically report the CEO’s and Mayor’s credit card transactions to its audit committee for review to ensure the expenditure is reasonable and for business purposes (section 6.3.4)
- 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 (sections 6.3.5 and 6.3.7)
- maintain adequate records to explain its expenses and demonstrate transparency in the decision-making process and the proper use of public money (section 6.3.6)
- evidence approvals that support the business purpose prior to incurring expenditure that is outside of an approved policy and/or perceived to be unusual or uncommon (section 6.3.6)
- identify its key business expenses and develop and implement policies and procedures for them, such as policies for travel, entertainment and hospitality (sections 7.3.1 to 7.3.3)
- 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 8.3.1)
- consider revising its credit card policy to limit the amount spent on individual gifts to ensure the expenditure is a proper use of public money (section 7.3.4)
- review its policy on funding social functions such as the annual elected member and staff Christmas function (section 8.3.1)
- better explain the business purpose and business benefit to the Council before incurring sensitive expenditure. The Council should also maintain adequate records to support this explanation (section 8.3.1)
- review its policy and procedure on employee recognition of service and achievements, with specific focus on staff performance and the expenditure principles (sections 8.3.2 and 8.3.3)
- have its staff organise the Mayor’s travel arrangements in line with policy and existing practices and reassess the need for the Mayor to have a council credit card (section 9.2.1)
- clarify and, where necessary, update its elected members allowance, benefits and support policy for requirements to ensure all expenditure incurred by or for elected members is necessary and appropriate in performing their official duties (section 9.2.2).

1.5 Response to our recommendations

The Council considered the matters we raised and acknowledged the deficiencies in its policies, management and controls for credit card use. The Council response is included in each section of the Report.

After we communicated our examination findings, the Council engaged an external consultant to review the credit card transactions of 16 cardholders for specific periods ranging from July 2017 to March 2019. The Council advised that most of the consultant's findings were consistent with the findings in this Report.

The Council appreciated our feedback and recommendations to improve its credit card use and management. It will endeavour to implement our recommendations and those from the consultant's review as soon as practicable.

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 The Coorong District Council overview

2.2.1 Introduction

The Council is responsible for managing its local area of 8836 km² of primarily rural land with

a population of just over 5000.^{7,8} It provides a range of services, facilities and programs to its community which include:

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

The Council reported operating surpluses of \$1.3 million and \$300 000 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 2016-17⁹

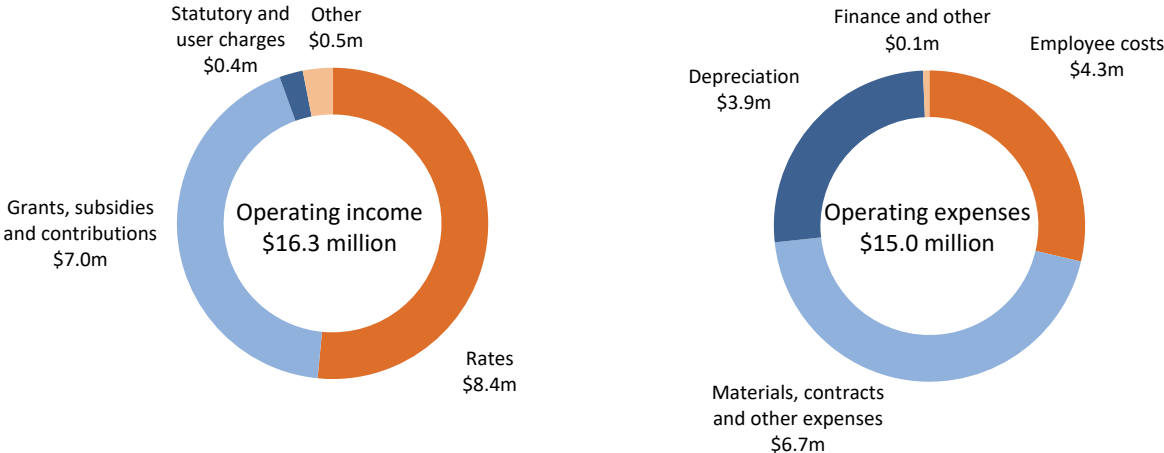
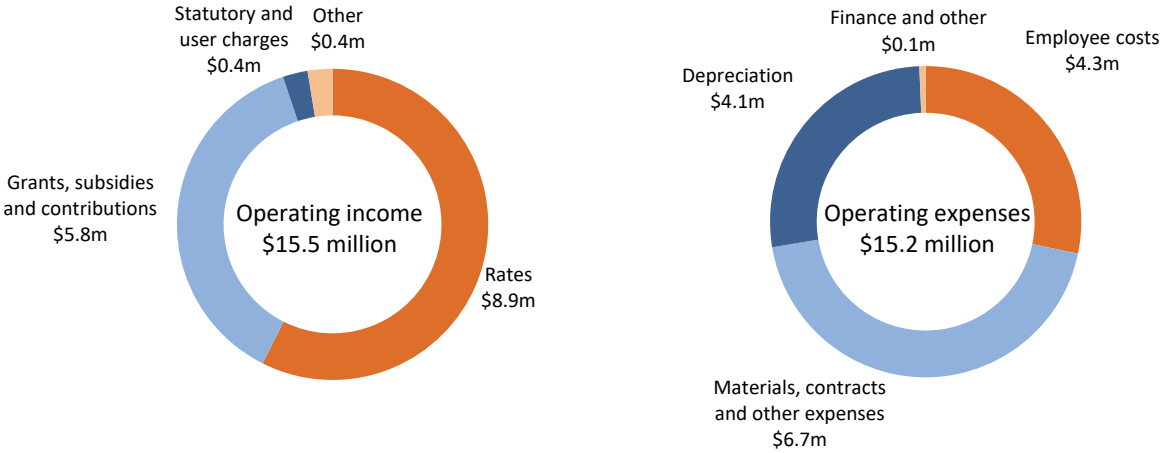


Figure 2.2: Sources of income and expenditure incurred in 2017-18¹⁰



⁷ The Council’s 2016-20 Strategic Management Plan.
⁸ Australian Bureau of Statistics 2016 Census QuickStats for The Coorong (DC), <quickstats.censusdata.abs.gov.au>, viewed 23 July 2019.
⁹ Data sourced from the Council’s audited financial statements for the year ended 30 June 2018.
¹⁰ *ibid.*

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).

Figure 2.3: Council credit card use and expenditure



The total amount of \$208 199 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 \$6.7 million p.a., being in the order of less than 2% 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 2018.¹¹

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.

¹¹ 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.

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 sought to divide the total population into categories based on information about the expenditure transactions (transaction description, expenditure type, amount). We could not categorise the expenditure, however, because the transaction description and expense type was not recorded in the Council's credit card system. While we tried to obtain this information from the Council's accounts payable system, we could not easily, and efficiently, reconcile data from the two systems because of limitations in the information retained.

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.¹²

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 36 credit card transactions, with a total value of \$19 578, 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.

¹² 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 29 were sensitive type spending. This selection of 36 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,¹³ 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.

¹³ 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.

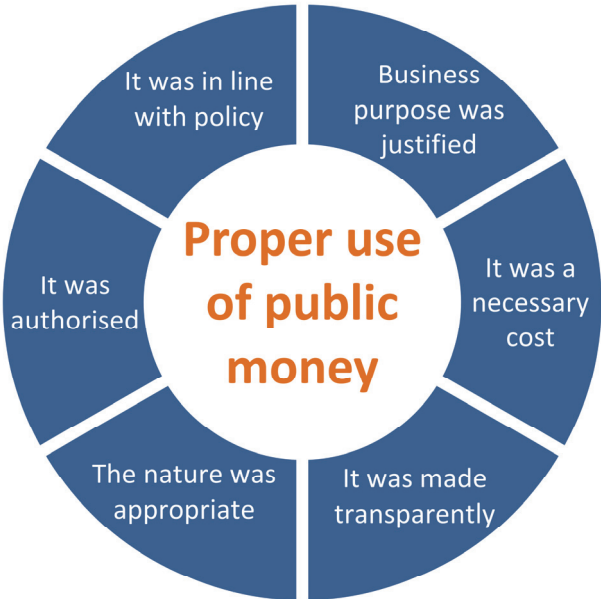
To assess whether credit card expenditure was a proper¹⁴ use of public money, we considered established standards of proper and prudent expenditure behaviour, including:

- 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



¹⁴ 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 36 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

Consistent with procedural fairness principles, on 31 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 with the Council's Acting CEO, Acting Director of Community and Corporate, and Finance Manager.

We also met with the Council's Mayor and Acting CEO on 12 November 2019 to discuss the examination results.

We received a formal response to the examination results from the Mayor, on behalf of the Council, on 13 December 2019. We have considered all comments provided during the procedural fairness process and, where necessary, we have addressed them in finalising this Report.

On 22 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 the Mayor and Council staff across all business units.

The Council's acquisition of goods and services policy requires a periodic review of issued cards to ensure the number issued and reasons for issuing them are appropriate. The Council had not undertaken this review in the period we examined (22 months).

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.

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
- confirm that individual cardholder limits are reasonable and enable cardholders to perform their roles and responsibilities efficiently
- confirm that the reason for issuing a credit card and its subsequent use remains appropriate and supports efficiency
- 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

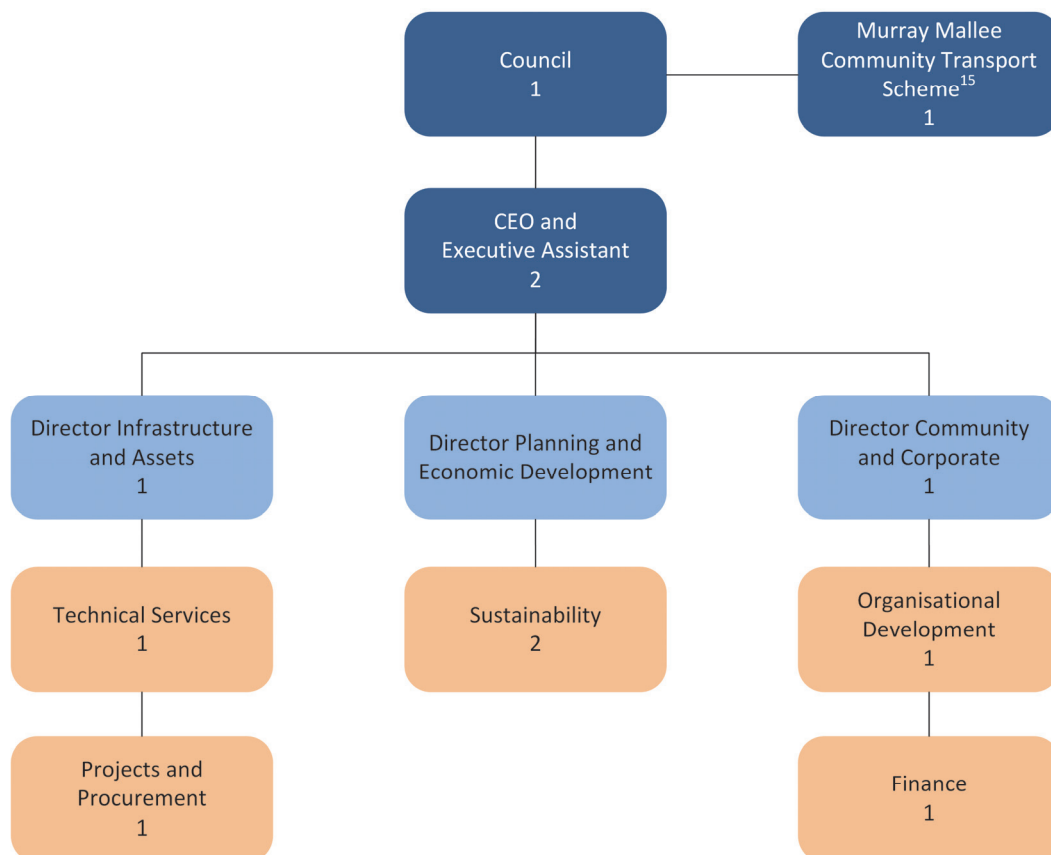
The Council should perform a formal and regular analysis of its credit card and accounts payable expenditure to:

- identify areas for further improvement in the use of credit cards
- confirm that individual cardholder limits are reasonable and enable cardholders to perform their roles and responsibilities efficiently
- confirm that the reason for issuing a credit card and its subsequent use remains appropriate and supports efficiency
- inform its procurement strategy.

Finding

We found that credit cards were issued to the Mayor and Council staff across all business units. 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



¹⁵ The Council and two other councils established the Murray Mallee Community Transport Scheme, a regional subsidiary under section 43 of the LG Act. The regional subsidiary provided community transport to residents in the three council areas. The regional subsidiary was wound up by 31 December 2018.

The Council's acquisition of goods and services policy, dated March 2017, requires a periodic review of issued cards to ensure the number issued and reasons for issuing them are appropriate. We found that the Council had not undertaken this review in the period we examined (22 months).

Our analysis of credit card expenditure data found that most cardholders used their cards frequently, with four cardholders using less than 20% of their monthly limit throughout the examination period.

Overall, credit cards were used for their intended purpose in that they were used for low-value and high-volume transactions, and we found no instances of transaction splitting. Further, credit cards were not used to pay suppliers under existing contract arrangements.

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.

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

4.3.2 Council response

The Council considers that the number of Council issued credit cards may be excessive for a council of its size. The Council considers it appropriate to significantly reduce the number of credit cards and issue them to the following positions:

- the CEO
- Directors
- the executive assistant to the CEO and Mayor
- any other position deemed appropriate by the CEO after considering their position, role and needs.

5 Credit card policy and procedures

What we found

The Council adopted a new credit card policy in May 2019 that provides more direction and guidance on:

- the expenditure principles and approval requirements
- necessary limitations and arrangements to reduce the risk of credit cards being misused
- reporting and escalating breaches with policy.

The new credit card policy could be further improved by including:

- a definition of official business purpose
- further instruction to ensure correct and adequate records are maintained to support and explain the expenditure
- more direction to improve the independent review process.

What we recommended

The Council should consider updating its credit card policy for the improvements we identified.

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's procurement policy provides for the use and management of credit cards. The following policies applied in the period we examined (1 July 2016 to 30 April 2018):

- acquisition of goods and services policy dated June 2015
- acquisition of goods and services policy dated March 2017.

The Council adopted a revised procurement policy, dated May 2018. The credit card policy requirements of this policy were the same as those in the March 2017 policy.

5.2 Examination approach

We assessed the acquisition of goods and services policies that applied during the period we examined 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 policies 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 policies.

Our examination identified areas where the policies could be improved. The Council adopted a new credit card policy, dated May 2019, before we communicated our findings.

In completing our examination, we reviewed the new credit card policy 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 New credit card policy could be further improved

Recommendation

The Council consider updating its credit card policy for the improvements we identified in this section and the recommendation we made in section 6.3.3.

Finding

We noted that the new credit card policy provides more direction and guidance on:

- the purchasing principles and requires the cardholder to ensure expenditure is necessary (ie for official business purposes), reasonable, reflects value for money, appropriate (able to withstand public scrutiny) and allowable (within Council policy and legislative requirements)
- when additional approval is not required (eg expenses related to projects, events/functions, travel that have been approved and are within budget)
- necessary limitations and arrangements to reduce the risk of credit cards being misused. For example, prohibiting credit cards being used for personal expenses and cash advances
- recordkeeping and reporting requirements
- reporting and escalating breaches with policy.

The new credit card policy could be further improved by including:

- a definition of official business purpose
- a requirement that where the tax invoice has not been retained, the cardholder should obtain another copy from the supplier
- further instruction on what information is required to ensure transactions are accurately recorded and appropriate authorisations¹⁶
- a requirement that all credit card reconciliations be independently reviewed and an outline of the independent reviewer's responsibilities
- the records needed to support the use and management of credit cards and how to maintain them (eg retaining on file the authorised acknowledgement forms).

5.3.2 Council response

The Council has started a review of its credit card policy and procedure in line with the recommendations.

¹⁶ The credit card policy requires monthly credit card transactions to be accurately recorded on the monthly credit card reconciliation form and appropriate authorisations to be obtained in line with Council delegations.

6 Specific controls over credit card expenditure

What we found

Financial delegations

For the period we examined, 2016-17 and 2017-18, in our view the Council's delegation documents did not clearly reflect the delegation process. We found:

- the effect of the conditions and limits to the delegation made to the CEO was unclear
- the scope and effect of the delegations and sub-delegations were unclear
- the delegation documents may not accurately reflect the Council's intention
- a monetary limit is stated but the documents do not explain how it is to be applied
- delegations are referenced to people rather than positions. The LGASA provides guidance to the local government sector on the delegations framework that suggests referencing sub-delegations to positions rather than people
- a formal instrument of the CEO's sub-delegations is not maintained.

For the period we examined, 2016-17 and 2017-18, the then CEO sub-delegated the power to spend Council money to the Mayor. The Mayor is not one of the people or bodies listed in section 101 of the LG Act. We concluded that the 2016-17 and 2017-18 sub-delegations to the Mayor were not in line with the LG Act and were invalid.

Independent review

Our review of the 36 credit card transactions we selected found that all but two transactions were reviewed by a person other than the cardholder.

We found that the independent review was, in our view, not effective for 17 of the transactions we reviewed. The Council's new credit card policy does not provide for the independent review of credit card transactions.

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, of some expenditure transactions we reviewed. The Council was unable to provide records that explained the business purpose for four 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.

What we recommended

Financial delegations

The Council should:

- ensure all delegations and sub-delegations are in line with the LG Act
- clarify the effect of the conditions or limitations contained in its instrument of delegations
- ensure its instrument of delegations clearly and accurately reflects the powers and functions delegated. The information contained in the instrument of delegations is consistent within itself and other relevant documents
- have the CEO maintain a signed formal instrument of sub-delegations separate from the instrument of delegation by the Council.

Independent review

The Council should update its new credit card policy to require an independent review of credit card expenditure and document procedures for this.

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 and in line with the new/revised policies.

The Council should report the CEO's and Mayor's credit card transactions to its audit committee for review 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.

Any approvals to support the business purpose of expenditure that is outside an approved policy and/or perceived to be unusual or uncommon should be evidenced, either by a signature or in an email, before the expenditure is incurred.

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 of functions vested or conferred in or on the CEO under the LG Act.

Section 126 of the LG Act provides the functions of a council's audit committee which 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 36 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 relevant Council **policy** and was **authorised**. The approval of sensitive expenditure should be given before the expenditure is incurred, where practical, and the expenditure principles have been met.

Refer to Appendix 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 Council's 2016-17 and 2017-18 delegation process and documents were unclear

Recommendation

The Council should clarify the effect of the conditions or limitations contained in its instrument of delegations.

The Council should ensure its instrument of delegations clearly and accurately reflects the

powers and functions delegated. The information contained in the instrument of delegations should be consistent within itself and with other relevant documents.

Where the Council has delegated its power to spend money to the CEO, and this power is sub-delegated, the CEO should maintain a signed formal instrument of sub-delegations separate from the Council's instrument of delegation.

Consistent with the LGASA's guidance on delegations, we consider better practice would be for sub-delegations to be clearly referenced to positions and not to individual employees, and to clearly explain the purposes for which monetary limits apply.

Finding

On 15 August 2017 the Council delegated its power to spend money, within the approved annual budget, to the CEO subject to conditions or limitations contained in the schedule of conditions attached to the instrument of delegations.

The schedule of conditions refers to 'the following financial delegation summary (minute 046/17)' and then attaches a document titled 'Financial Delegation Authority'. This document states that 'the following council officers have delegated financial expenditure pursuant to section 137 of the *Local Government Act 1999* effective from 30 June 2017' and lists the officers by position, name and monetary limit. It was signed by the then CEO on 5 July 2017.

We found that the effect of the conditions and limits to the delegation made to the then CEO on 15 August 2017 was unclear because the Financial Delegation Authority:

- was dated before and came into effect prior to the delegation the Council made to the then CEO on 15 August 2017
- imposes a limit on the CEO of '\$100,000+'. It is unclear whether this has the effect of limiting the CEO's ability to sub-delegate the power to spend Council money
- includes the officer's name. It is unclear whether any limitation applies to the person or to the position
- provides a monetary limit but does not explain how it is applied, such as whether it is a single transaction limit and excludes GST
- was signed by the then CEO. The purpose and effect of this endorsement was unclear.

The schedule of conditions also refers to minute 046/17 which records the Council's adoption of its acquisition of goods and services policy. This policy stipulated that:

...the CEO will hold a register of financial delegations.

Council will delegate power to the Chief Executive Officer to manage the register at their discretion while taking into consideration changes in officers and/or appropriate financial delegation. The delegation power and functions may be exercised individually (at the Chief Executive Officer's discretion) by each Council officer ...

Council staff advised that the register of financial delegations referred to is the Financial Delegation Authority document. In practice, the Financial Delegation Authority was updated and re-signed by the then CEO each time officers changed positions. This occurred five times between 15 August 2017 and 30 April 2018.

The Financial Delegation Authority, in our view, is a register of the financial delegations and sub-delegations that have been made rather than an instrument by which those delegations and sub-delegations are made. The Council did not maintain a formal instrument of the CEO's sub-delegations.

Overall, in our view, the Council's delegation documents did not clearly reflect the delegation process. As a result:

- the scope and effect of the delegations and sub-delegations were unclear
- the delegation documents may not accurately reflect the Council's intention. That is, whether the Council intended to delegate the powers to the CEO with the intention of the CEO sub-delegating those powers to specific positions
- delegations refer to specific people. The LGASA's guidance to the local government sector on the delegations framework¹⁷ suggests referencing instruments of sub-delegations to positions rather than people.

As provided in our report on the examination of governance in local government,¹⁸ delegations need to be made in line with the LG Act to reduce the risk of unauthorised transactions. The instrument of delegations should be a clear, complete and accurate record of the authority given by a council to the CEO and by the CEO to the sub-delegate to ensure expenditure is authorised and for efficient and effective decision-making when spending public money.

6.3.2 Mayor's 2016-17 and 2017-18 financial delegations were not in line with the LG Act and were invalid

Recommendation

The Council should ensure all delegations and sub-delegations are made in line with the LG Act.

Finding

Section 101 of the LG Act permits the CEO to delegate or sub-delegate a power or function to:

- a committee comprising council employees
- a council employee
- an authorised person.¹⁹

¹⁷ LGASA, 'Delegations' viewed 8 May 2019, <<http://www.lga.sa.gov.au/page.aspx?u=6676>>

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

¹⁹ Section 4 of the LG Act defines an authorised person as a person appointed by a council as an authorised person under section 260. Section 260(1) prevents a council appointing a council member as an authorised person.

Council staff advised us that the then CEO had sub-delegated the power to spend Council money to the people named in the Financial Delegation Authority. They include council employees and the Mayor.

The Mayor is not one of the people or bodies listed in section 101 of the LG Act. We concluded that the CEO cannot delegate the power to spend Council money to the Mayor. This means that the 2016-17 and 2017-18 sub-delegations to the Mayor were not in line with the LG Act and were invalid.

The Mayor was issued a credit card with a limit of \$5000 during the period we examined. While the Mayor cannot be given a delegation to spend Council money, the Mayor's credit card transactions were authorised by the then CEO after the expenditure was incurred.

6.3.3 Deficiencies in the independent review of credit card expenditure

Recommendation

The Council should update its new credit card policy to require an independent review of credit card expenditure, and document the procedures for this.

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.

As mentioned in section 5.3.1, the Council's policy does not provide for the independent review of credit card transactions.

In practice, credit card reconciliations are reviewed by a person in a role senior to the cardholder. The reviewer signs the reconciliation as evidence that they are satisfied the purchases presented on the reconciliation were made in line with Council policies and have been checked to supporting documentation.

Our review of the 36 credit card transactions we selected found that all but two transactions were reviewed by a person other than the cardholder.

We also found that the independent review of credit card expenditure was, in our view, not effective for 17 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 always 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 6.3.5, 6.3.6 and 6.3.7. Appendix 4 provides an example of our assessment against the expenditure principles.

6.3.4 Independent review of CEO's and Mayor's transactions could be improved

Recommendation

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

Finding

The transactions we tested included expenditure incurred by the Mayor and Executive members. In practice the Mayor reviewed the CEO's reconciliations. The CEO reviewed the Executive members' and Mayor's reconciliations.

We found instances where, in our opinion, the independent review was ineffective because:

- it failed to ensure the credit card transaction was supported by adequate and/or correct records to justify its business purpose
- it was not conducted by someone who could exercise independent judgement because they had benefited, or could be perceived to have benefited, from the expenditure.

We consider better practice would be reporting the CEO's and Mayor'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.

6.3.5 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 36 credit card transactions we tested. In our opinion the reconciliation records of 13 of these transactions (39%) 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 13 transactions, we found:

- Council staff were unable to provide records adequately explaining the business purpose of the expenditure for four 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 eight transactions Council staff were unable to adequately explain 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
- for one transaction the credit card was used for social club expenditure. The Council was promptly reimbursed for the expenditure.

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

6.3.6 Not all expenses were supported by adequate or correct records

Recommendation

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

Any approvals to support the business purpose of expenditure that is outside of an approved policy and/or perceived to be unusual or uncommon 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
- the tax invoice was unreadable
- the record in our view, did not adequately explain the expenditure's business purpose
- the explanation for the transaction was not consistent with the expenditure records
- the reconciliation records could have been improved by including a reference to records supporting its business purpose. Such records might include prior approvals of the expenditure purpose, references to the relevant Council resolution or 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 36 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,²⁰ the then Auditor-General reported:

Procedures/processes of government that are contrary to law are not either

²⁰ 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.

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 is at risk of not being able to demonstrate, with transparency and confidence, the proper use of public money.

6.3.7 The Council did not always demonstrate the expenditure was 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 was both necessary in performing the Council's functions and appropriate for its intended purpose.

Finding

Of the 36 credit card transactions we reviewed, we were not satisfied for 25 transactions 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 three of the 25 transactions were made in line with approved policy and 19 transactions were approved by the then CEO, we concluded that the Council incurred an additional cost for minimal or no benefit to either the Council and/or public.

The individual transaction amounts we tested were low value when compared to the Council's total expenditure. However, 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 20 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.

6.3.8 Council response

The Council acknowledged that its delegation documents did not clearly reflect the delegation process and they have now been reviewed.

The Council also acknowledged the lack of details and narratives provided in the reconciliation and inadequate explanation of the business benefit or work-related purposes for some transactions. An external consultant engaged by the Council has also raised this issue.

The Council intends to set out in its credit card policy the requirement for employees to provide proper narratives for reconciliations.

7 Credit card payments for business expenses

What we found

Our review of selected credit card transactions for business expense items found that the Council needed to have policies and guidelines to govern these expenses.

We found that the credit card acquittal documentation for

- five transactions did not evidence prior approval for the travel
- six transactions did not adequately explain, in our opinion, the business purpose and expected benefits to the Council of the travel related expenditure.

Council staff were unable to provide any further records to support the request and approval to travel for four transactions.

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
- lunch for offsite meetings between Council staff
- refreshments for celebratory events.

We found credit cards were used to pay for gifts to staff and external parties. We noted the Council's new credit card policy, dated May 2019, provides direction on the purchase of flowers or gifts under certain circumstances, including for staff. The new policy does not limit how much can be spent on gifts for the various circumstances.

What we recommended

The Council should identify its key business expenses and develop and implement policy and procedures for them, such as policies for travel, entertainment and hospitality. These policies should provide clear direction and guidance on the principles Council employees need to consider when making expenditure decisions and to demonstrate the proper use of public money.

In developing its expenditure policies, the Council should survey its community and other key people or groups to understand the public's expectations of what sensitive expenditure may or may not be funded by public money, or coordinate with other councils to obtain this information.

The Council should consider revising its credit card policy to limit the amount spent on individual gifts to ensure expenditure is a proper use of public money.

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 performed our examination and during the period we examined.

When we assessed 36 credit card transactions against the expenditure principles explained in section 3.3, we identified a need for the Council to develop policies 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 adopted a revised credit card policy, dated May 2019, before we communicated our examination findings. It gives direction on purchasing gifts. In completing the examination, we reviewed the revised policy to identify any further improvements. We did not assess whether Council staff complied with the revised policy as it applied after the period we examined.

7.3 Findings

7.3.1 Insufficient policy guidance for business expenses

Recommendation

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

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.

Finding

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

- staff travel and other costs while travelling (eg meals, accommodation)
- entertainment and hospitality (including the provision and consumption of alcohol)
- gifts.

Our review of the selected credit card transactions for these business expense items found that:

- some expenditure may not be considered acceptable expenditure behaviour by the Council and/or the public
- for some there were, in our opinion, inadequate records to explain the expenditure. The business purpose was not justified before or at the time 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.

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 the 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.

Business expense policies

Policies for business expenses should provide the expenditure principles decision-makers need to consider in demonstrating the proper use of public money. We consider business expense policies should clearly:

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

Further commentary on business expenses is provided in sections 7.3.2 to 7.3.4.

7.3.2 Travel expenses were not supported by adequate accounting records

Recommendation

The Council should develop and implement a policy to provide direction and guidance on administering and approving staff travel.

Finding

Credit cards were used to pay for expenses incurred while Council staff and elected members travelled interstate and intrastate. These expenses included flight costs, meals, accommodation and incidentals. We examined 10 travel related expenses.

We found that the credit card acquittal documentation for:

- five transactions did not evidence prior approval for the travel
- six transactions did not adequately explain, in our opinion, the business purpose and expected benefits to the Council of the travel related expenditure.

Council staff were unable to provide any further records to support the request and approval to travel for four transactions. These transactions related to travel by Council staff.

The Council did not have a policy governing staff travel arrangements during the period we examined. We consider a travel policy and procedures should:

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

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

Recommendation

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

Finding

Credit cards were used to pay for entertainment and hospitality expenses such as lunch/dinner for meetings and farewells, refreshments while travelling, alcohol, gift cards, 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 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.

We consider entertainment and hospitality policy and procedures should include:

- guidance on when it is appropriate to provide entertainment and/or hospitality that is clearly defined by reference to the Council's official functions and business purpose. Examples might include when:
 - building relationships with external parties to further the Council's objectives
 - representing the Council in an official capacity
 - building revenue
 - developing the organisation through training/planning sessions, while being cost-effective
- getting approval prior to the expenditure. Any 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 (with value for money being the key consideration for all costs)
- necessary restrictions to ensure proper and prudent expenditure behaviour. For example, setting monetary limits for catering, guidance on the provision of alcohol and in what circumstances hospitality will be provided to staff and elected members
- reporting requirements to enable the Council to comply with its tax requirements, such as GST and FBT.

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
- 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

Recommendation

The Council should consider revising its credit card policy to set a limit on the amount that can be spent on individual gifts to ensure such expenditure is a proper use of public money.

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:²¹

- 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. A gift policy should, for example, specify:

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

Our analysis of credit card transaction data found that credit cards were used to pay for gifts to staff and external parties. The transactions we examined included a gift card to an employee for illness, gifts presented on Australia Day to the citizen of the year and the Mayor's award recipients, gift vouchers for prizes in a community competition and gifts related to a farewell. Gifts are also provided to staff in line with the Council's human resources policy and employee recognition procedure, which is discussed further in section 8.3.2.

We noted the Council's new credit card policy, dated May 2019, provides direction on the purchase of flowers or gifts under certain circumstances, including for staff.²² The policy does not limit how much can be spent on gifts for the various circumstances.

The SA Ombudsman's report on the investigation of HomeStart Finance²³ 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 ...

²¹ New Zealand Controller and Auditor-General, Good practice guide, *Controlling sensitive expenditure: Guidelines for public entities*, February 2007.

²² The new credit card policy provides for the purchase of flowers or gifts for an employee or their family if there is a death or a life-threatening injury or illness.

²³ SA Ombudsman's report *HomeStart – Maladministration in public administration*, 10 March 2017.

Consistent with the SA Ombudsman's view, in our view 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 (including gift vouchers), 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.

7.3.5 Council response

The Council acknowledged that the following types of transactions may not necessarily be for business purposes or a necessary and appropriate use of public money:

- alcohol
- lunch for offsite meetings between Council staff
- refreshments for celebratory events.

The Council intends to set out in policy and educate its staff that these expenditures, or expenditures of a similar nature, should only be made where there is a clear business purpose and sufficient link to employment.

The policy will also set out that where the narratives or explanations for transactions are deficient, considered non-work related or otherwise unauthorised, the Council will seek reimbursement of the expense from staff.

8 Credit card payments for reward and recognition expenses

What we found

Our review of selected credit card transactions found there was a need for the Council to review its employee recognition policy and procedure.

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 always, 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.

For the selected credit card transactions we tested, we found that expenditure did not comply with all policy requirements.

What we recommended

The Council should review its policy on funding social functions such as the annual elected member and staff Christmas function.

In doing so, to inform its decision on future practice, the Council should survey its community to understand the public's expectation of what sensitive expenditure 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. It should also maintain adequate records to support this explanation.

The Council should review its policy and procedure on employee recognition of service and achievements, with 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's human resource policy and employee recognition procedure, dated August 2017, aims to publicly acknowledge and celebrate significant service milestones and employee achievements. This is considered to be a positive reinforcement of a culture that values its employees.

The Council's recognition programs provide for staff achieving significant years of service milestones and, where relevant, for resignation or retirement. Rewards include certificates, gifts or celebratory functions depending on the years of service achieved. The CEO also acknowledges all services milestones at the Council's annual Christmas function and through a personal communication to the individual, and their peers, at the time the milestone is achieved.

The recognition programs also provide for significant achievements or effort by individuals and teams. Annual achievement awards are presented at the Council's annual Christmas function. Rewards include gifts for individuals and a lunch/dinner for teams.

8.1.3 Relevant credit card expenditure

Of the 36 transactions we examined, Council staff advised us that three payments related to expenditure incurred in line with the Council's human resources policy. The transactions we examined included gifts to employees to thank them for their efforts in implementing a community program, lunch for employees to launch a Council initiative and gifts/lunch for an employee's farewell.

8.2 Examination approach

We examined the Council's human resource policy and employee recognition procedure, dated August 2017. These:

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

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

8.3.1 Policy on funding functions needs to be reviewed

Recommendation

The Council should review its policy on funding social functions such as the annual elected member and staff Christmas function.

In doing so, to inform its decision on future practice, the Council should survey its community to understand the public's expectation of what sensitive expenditure 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 also maintain adequate records to support this explanation.

Finding

Council staff advised us that it funds the Christmas function in line with the approved budget allocation. In our opinion, there was not a clear business benefit to the Council from spending public money on the Christmas function.

We were not satisfied that it was necessary and appropriate to use public money to fund the Christmas function. 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

Recommendation

The Council should review its policy and procedure on employee recognition of service and achievements, with specific focus on staff performance. The Council should ensure that:

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

Finding

The Council's recognition programs include providing gift rewards to staff for:

- every five years of service (commencing at 10 years of service). The gift value varies depending on the length of service (starting at \$100 for 10 years up to \$450 for 45 years). The recipient may choose to receive a gift voucher, cash or a specific gift

- individual recognition of significant achievement. The gift value is up to \$50
- team recognition of significant achievement. The lunch or dinner value is up to \$30 per person.

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 (eg cash, gift vouchers), 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.

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 service recognition rewards was considered unnecessary

Recommendation

The Council should review its policy and procedure on employee recognition of service to ensure the extent and frequency of the years of service being rewarded are necessary and to specify rewards that are modest or have no additional cost to the Council.

Finding

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 costs set out in its policy to recognise an individual’s years of service milestone. 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 The Council did not clearly demonstrate the proper use of public money in recognising staff achievement

Recommendation

The Council should recognise all individual and team achievements in line with its policy to

ensure:

- the reason for recognising the achievement is aligned with business purpose and encourages behaviours that support the Council's values
- the expenditure is necessary and appropriate for the performance/behaviour being recognised
- recognition programs are fair to all employees, recognised in line with policy and applied consistently across the Council
- the assessment and determination of awards is transparent and records are retained to support the decisions made.

Finding

We assessed the three employee recognition expenses against the Council's human resources policy and employee recognition procedure. We found that the reconciliation records did not clearly justify the business purpose of the expenditure.

We made further inquiries with Council staff to ascertain the business purpose of the expenditure in line with the policy and procedure and to obtain relevant records.

We found that:

- for all three transactions the business purpose was not clearly aligned with the policy and procedure
- for all three transactions there were no records to support the recognition assessment process and the Leadership Team's decision to recognise and reward the achievements
- the amount spent was greater than the value provided in the procedure for one transaction. We were advised that the individual voucher amounts were approved by the then CEO.

Based on the information provided, we concluded that the Council had not clearly demonstrated the proper use of public money for these transactions. This was because the expenditure's business purpose was not clearly justified and in accordance with policy, and the expenditure decisions were not transparent as the records did not adequately explain the purpose of the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.

8.3.5 Council response

The Council will consider strengthening its policy on reward and recognition of staff to ensure that expenses will only be incurred where there is a business case for recognising and rewarding an individual employee.

9 Credit card payments for elected members' benefits

What we found

From 1 July 2016 to 30 April 2018, the Mayor made 87 credit card transactions with a total value of \$5765. Six of these transactions, totalling \$3706, were for hotel accommodation. The Mayor's travel arrangements could be arranged, potentially more efficiently, by Council staff. The remaining \$2059 were for small amounts and we concluded that these expenses could be reimbursed.

The Council's elected members allowance, benefits and support policy does not include necessary restrictions to ensure the proper use of public money. Such restrictions could include the travel arrangements for accompanying family members, prohibiting the payment of incidental costs considered personal such as mini-bar expenses and in-house movies, and not paying for refreshments at council meetings.

What we recommended

Council staff should make the Mayor's travel arrangements in line with policy and existing practices.

The Council should reassess the need for the Mayor to have a council credit card.

The Council should clarify and, where necessary, update the requirements for its elected members allowance, benefits and support policy. This is to ensure that all expenditure incurred by or for elected members is necessary and appropriate in performing their official duties.

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 elected members' allowance, benefits and support policy, last revised in August 2017, provides for council members' allowances and the reimbursement of expenses under section 77 of the LG Act. This policy applied during the period we examined.

During our examination this policy lapsed due to the general election held in November 2018. On 20 November 2018 the Council adopted a new policy, the Council members allowance, benefits and support policy.

9.1.3 Relevant credit card expenditure

Of the 36 credit card transactions we examined, eight related to expenditure incurred for the benefit of the elected members. These transactions were for travel, such as flights and meals, council meeting meals and conference fees.

9.2 Findings

9.2.1 The Mayor's credit card facility

Recommendation

Council staff should make the Mayor's travel arrangements in line with policy and existing practices.

The Council should reassess whether the Mayor's credit card is needed.

Finding

The Council's elected members' allowance, benefits and support policy, last revised in August 2017 and applied during the period we examined, did not provide for the Mayor to be issued a credit card. Council staff advised us that the Council authorised the Mayor's credit card at the Council meeting held on 11 September 2007. This resolution was made by a previous elected body and it was unclear whether it continued to apply after each general election.

We noted that this uncertainty was resolved when the Council adopted its new Council members allowance, benefit and support policy in November 2018, after the general election. The new policy provides for the Mayor to be issued a credit card with a limit of \$3000 (reduced from \$5000) to help them perform their official duties. While the policy does not specify how this limit applies, in practice it is the total monthly credit limit.

The agenda paper supporting the policy review did not explain why providing a credit card to the Mayor was necessary or expedient to them performing their official duties.

We found that between 1 July 2016 and 30 April 2018 the Mayor made 87 credit card transactions with a total value of \$5765.

Of these transactions six to the value of \$3706 were for hotel accommodation. The Mayor's travel arrangements could be made, potentially more efficiently, by Council staff.

The remaining amount of \$2059 was for small amounts, with an average of \$25 per transaction and \$98 per month. They were for fuel, meals and car parking. We concluded that due to the small amounts involved, these expenses could be reimbursed in line with Council policy.

9.2.2 Policy could be improved to clarify requirements

Recommendation

The Council should clarify and, where necessary, update the requirements for its elected members allowance, benefits and support policy. This is to ensure all expenditure incurred by or for elected members is necessary and appropriate in performing their official duties.

Finding

Travel costs

The Council's elected members' allowance, benefits and support policy provides for elected members' travel expenses. We found that the travel expenditure we examined was incurred in line with this policy in that it:

- was supported by a Council resolution that specified the purpose of the travel

- specified the nominated attendees to travel
- approved the total costs per attendee and covered all costs associated with the travel. The approval did not provide a breakdown of the costs that were to be funded.

We found that Council funds were used to pay for:

- personal expenses such as hotel mini-bar purchases, including alcohol and confectionary, and in-house movies
- the airfare of an elected member's spouse who accompanied the elected member on official business. The Council had not recovered this cost from the elected member.

The policy, once attendance is approved, specifies the travel related costs that will be reimbursed (funded by the Council). These include accommodation, meals and other reasonable incidental costs. We do not consider that mini-bar purchases and in-house movies constitute reasonable incidental costs of official Council travel that is funded by public money.

In our opinion, the Council's elected members allowance, benefits and support policy does not include necessary restrictions to ensure the proper use of public money. Such restrictions could include the travel arrangements for accompanying family members and prohibiting the payment of incidental costs considered personal, such as mini-bar expenses and in-house movies.

Appendix 4 provides details of our assessment of travel expenditure.

Refreshments

We also found that Council funds were used to pay expenditure incurred at a local hotel. The reconciliation records for this transaction did not provide an adequate description of the business purpose of the expenditure. Further, there was no tax invoice attached that itemised what was purchased with Council funds. Council staff advised us that the expenditure was for the purchase of drinks after a council meeting for the elected members.

The Council's elected members allowance, benefits and support policy does not provide for refreshments before or after council meetings.

While the records do not provide sufficient evidence that alcohol was purchased, it is reasonable to conclude that money was spent on alcohol because it was spent at a hotel bottle shop. It is our view that the purchase of alcohol is not a proper use of public money except in rare circumstances and where the business purpose is clearly justified, and there is a benefit to the public.

9.2.3 Council response

The Council acknowledged the findings and will make necessary changes in line with the recommendations.

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 which 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 ²⁴	<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>

²⁴ 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	<i>All expenses must be for a legitimate University purpose, meaning they are reasonable and appropriate in the circumstances, and publicly defensible.</i>
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 description	Supplier	Expense amount (\$)	Council policy	Finding
	2016					
1	5 Jul	Aquarium, plants, setup	Pet store	389.00	No policy	 The Council did not clearly demonstrate proper use of public money. This was because 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.
2	29 Aug	CEO forum	Hotel	317.80	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.
3	31 Aug		Hotel accommodation	1 960.00	No policy	 The Council clearly demonstrated proper use of public money.
						 We identified a need to improve reconciliation records to support the business purpose at the time expenditure was incurred.
4	14 Oct	Art exhibition launch	Hotel	189.73	No policy	 The Council did not clearly demonstrate proper use of public money. This was because the expenditure decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary to incur the cost in performing the Council's functions.
						 In our opinion, the purchase of alcohol is not proper use of public money. However, there will be rare circumstances where it may be necessary and appropriate, such as an art exhibition. In our opinion, alcohol should be provided for sale at the event to cover the Council's cost.







	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
5	2 Dec	Playground opening	Liquor store	195.00	No policy	<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 of purchasing alcohol in performing the Council's functions.</p> <p> In our opinion, the purchase of alcohol is not proper use of public money.</p>
6	19 Dec	Healthy kids focus group	Restaurant	288.00	No policy	<p> The Council clearly demonstrated proper use of public money.</p>
7	28 Dec	Mouse (computer equipment)	Retail store	47.00	No policy	<p> The Council did not clearly demonstrate the 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>
2017						
8	2 Jan	Small drone	Paypal	2 499.99	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> <p> The Council clearly demonstrated proper use of public money.</p>
9	10 Jan	Australia Day recipients gifts – chocolates	Retail store	100.00	No policy	<p> The Council clearly demonstrated proper use of public money.</p>







	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
10	12 Jan	Meeting	Hotel	141.50	No policy	 <p>The Council did not clearly demonstrate the 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>
11	7 Feb	Fold out tables - refer attached funding	Retail website	3 577.00	No policy	 <p>The Council clearly demonstrated proper use of public money.</p>
12	17 Feb	Over the water refreshments	Hotel	197.86	No policy	 <p>The Council did not clearly demonstrate the proper use of public money. This was because the expenditure decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p>
						 <p>In our opinion, the purchase of alcohol is not proper use of public money. However, there will be rare circumstances where it may be necessary and appropriate, such as an art exhibition. In our opinion, alcohol should be provided for sale at the event to cover the Council's cost.</p>
13	24 Mar	Car clean	Service station	23.95	Motor Vehicle	 <p>The Council did not clearly demonstrate the 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>


	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
14	20 Apr	National General Assembly	Online travel agency	2 213.76	Members' allowance, benefits and support	<p> The Council clearly demonstrated proper use of public money.</p> <p> We identified a breach of Council policy where Council funds were used to pay for an elected member's spouse's flight. The Council had not recovered this cost from the elected member.</p>
15	26 Apr		Hardware store	179.00	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>
16	15 May	Registration	DPTI – Ezyreg	235.00	No policy	<p> The Council clearly demonstrated proper use of public money.</p>
17	17 May	FAWT launch	Takeaway & pizza	144.00	Employee recognition	<p> The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not aligned with the policy and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p>
18	27 May	OPAL staff and former managers thank you vouchers	Jeweller	550.00	Employee recognition	<p> The Council did not clearly demonstrate proper use of public money. This was because the expenditure's business purpose was not aligned with the policy, it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions and the expenditure decision was not transparent as records were not retained to adequately explain the expenditure and as required by the policy.</p> <p> In our opinion, the purchase of a gift to paid staff was not proper use of public money.</p>

	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
19	2 Jun		Wish gift card	65.60	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 at the time it was incurred, the expenditure decision was not transparent as the records did not adequately explain the expense and, in our opinion, it was not necessary to incur the cost in performing the Council's functions and the nature of the expenditure was inappropriate for its intended purpose.</p>
20	17 Jun	Maternity leave present – social club to reimburse	Retail store	198.85	Procurement	 <p>In our opinion, the purchase of a gift to paid staff was not proper use of public money.</p>
21	20 Jun	Conference	Casino restaurant	58.00	No policy	 <p>In our opinion, credit cards should not be for used for social club and personal expenditure. The Council was promptly reimbursed for the expenditure.</p> <p>The Council did not 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, it was not clear that it was in line with Council policy and, in our opinion, it was not necessary to incur the cost in performing the Council's functions.</p>
22	21 Jun	Meeting meals	Eatery	24.75	Members' allowance, benefits and support	 <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 decision was not transparent as the records did not adequately explain the expense and it was unclear whether it was necessary to incur the cost in performing the Council's functions.</p>

	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
23	29 Jul	Mayor's forum	Hotel	685.46	Members' allowance, benefits and support	<p> The Council clearly demonstrated proper use of public money.</p> <p> We identified a need to improve the records to adequately explain the business purpose and support the expenditure decision. We also identified a need to clarify policy requirements to identify expenses that are necessary and appropriate.</p>
24	15 Aug	Dinner Strategic Planning Committee	Hotel	217.80	No policy	<p> The Council did not clearly demonstrate proper use of public money. This was because, in our opinion, it was not necessary to purchase alcohol for meetings and we identified a need to improve the reconciliation records to adequately explain the expenditure and Council policy.</p> <p> In our opinion, the purchase of alcohol for meetings is not proper use of public money.</p>
25	23 Aug		Alcohol distillery	117.50	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>
26	22 Sep	Voucher	Hotel	150.00	No policy	<p> The Council clearly demonstrated proper use of public money.</p>

	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
27	17 Oct		Hotel	49.98	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 correctly and accurately explain the expense and it was unclear whether it was necessary and appropriate to incur the cost in performing the Council's functions.</p>  <p>In our opinion, the purchase of alcohol is not proper use of public money.</p>
28	21 Oct	Farewell flowers for LGA traineeship coordinator	Florist	86.30	No policy	 <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>
29	23 Oct	Workshop	Hotel	401.98	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>
30	8 Nov	Art show launch	Bottle store	496.80	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 to incur the cost in performing the Council's functions.</p>  <p>In our opinion, the purchase of alcohol is not proper use of public money.</p>

	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
31	16 Nov	Accommodation and meals for elected members to attend conference	Hotel	1 134.42	Members' allowance, benefits and support	<p> The Council clearly demonstrated proper use of public money.</p> <p> We identified a need to improve the records to adequately explain the business purpose and support the expenditure decision. We also identified a need to clarify policy requirements to identify expenses that are necessary and appropriate.</p>
32	13 Dec	Committee dinner	Hotel	149.00	Members' allowance, benefits and support	<p> The Council did not clearly demonstrate the 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 to incur the cost in performing the Council's functions. We also identified a need to clarify policy requirements to identify expenses that are necessary and appropriate.</p>
2018						
33	9 Feb	Innovation showcase	Casino restaurant	148.00	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>
34	13 Apr	Staff farewell lunch	Hotel	104.80	Employee recognition	<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>
35	13 Apr	Accommodation	Hotel	761.00	Members' allowance, benefits and support	<p> The Council clearly demonstrated proper use of public money.</p>

	Date	Expense description	Supplier	Expense amount (\$)	Council policy	Finding
36	21 Apr	Accommodation	Hotel	1 478.50	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>

Appendix 4 – Credit card expenditure – example

The following example shows how we assessed credit card transactions against the expenditure principles and formed our conclusion. This transaction was selected for illustrative purposes only and is not considered more important or significant than the other transactions we examined (see Appendix 3).

1 Example – Travel and related costs

1.1 Transaction details and reconciliation records

The selected credit card transactions tested included the transactions in figure A4.1. We determined that these transactions related to one event, the attendance of Council representatives at the National General Assembly of Local Government held from 18 to 21 June 2017. We note that these amounts do not represent the total travel and related costs of attending this event (eg accommodation, meals and other incidental travel costs).

Figure A4.1: Transaction details for this example

Supplier name	Expense description	Date	\$	Reconciliation record
Webjet, Melbourne VIC	Elected members and CEO flights to Canberra National General Assembly	20/4/17	2 213.76	Webjet summary of charges for four people which provided the itinerary and passenger names
Casino, Canberra ACT	Casino Canberra conference	20/6/17	58.00	Tax invoice recorded the expenditure was for light refreshments
			48.00	Tax invoice recorded the expenditure was for alcohol
McDonalds, Frewville SA	McDonalds Frewville meeting meals	21/6/17	24.75	Tax invoice recorded the expenditure was for refreshments for three people and the initials of the attendees

The reconciliation records, except for those supporting the flight costs, did not provide any further information (ie documents or written description) to justify that the expenditure was for Council business purposes.

1.2 Discussions with Council staff

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

Webjet flights

Council staff advised us that:

- the Council approved attendance at the event at its meeting of 18 April 2018
- the Mayor's spouse accompanied the Mayor to the event. The flights were booked together for practicality
- only extra meal charges for the Mayor's spouse were reimbursed through a deduction from the Mayor's allowance
- there is no policy to support the Mayor's spouse attending Council's business events. We were provided with evidence of a deduction of \$187 from the Mayor's allowance processed in March 2017. We noted the deduction was processed before the event took place.

Conference refreshments

Council staff confirmed that these transactions were incurred at the time of attending the event. The Council had approved covering all associated costs and the applicable policy was the acquisition of goods and services policy.

Meeting meals

Council staff advised us that often the Mayor purchases meals after attending Local Government Association board meetings held in Adelaide before travelling home.

1.3 What we found

Our assessment of the transactions was based on a review of the Council's records supporting and explaining the expenditure and discussions with Council staff.

The three expenditure transactions were related to Council representatives attending the Australian Local Government Association's 2017 National General Assembly in Canberra.

The Council meeting minutes of 18 April 2017 record that the Council approved the attendance of the Mayor, Deputy Mayor, a Councillor and the then CEO at the 2017 National General Assembly of Local Government on 18-21 June 2017 and covering all associated costs. The agenda paper provided the associated costs to attend (\$2500 per delegate) and the importance of attending. The agenda paper did not provide a breakdown of the estimated associated costs for each delegate.

We were satisfied that the Council's agenda paper adequately explained the business purpose of the event and provided the approval to cover the associated costs.

The Council's elected members' allowance, benefits and support policy provides for travel expenses where:

Expenses will only be reimbursed for attendance at conferences ... which have been approved by Council ... the following types of expenses will be reimbursed – airfares, registration fees, accommodation and meals, taxi fares, car parking and other reasonable incidental costs.

Webjet flights

The flight documents record the payment of airfares for the following people:

- the then CEO
- the Mayor
- the Mayor's spouse
- the Deputy Mayor.

We found that the Council did not approve the Mayor's spouse attending the event and paying for the associated costs. Further, the Council's elected members' allowance, benefits and support policy does not provide for the travel arrangements of accompanying family members.

We found that Council funds were used to cover the Mayor's spouse's airfare which was not approved by the Council and not in line with Council policy. This policy applies to elected members in performing or discharging official functions and duties. The Mayor's spouse was not an elected member of the Council.

On this basis, we concluded the expenditure incurred to cover the Mayor's spouse's costs in attending the event did not demonstrate the proper use of public money.

Casino Canberra – conference refreshments

The tax invoices record the purchase of light refreshments and beverages, including alcohol in the late evening of 20 June 2017. This expenditure was incurred after the conference's official dinner at Parliament House, part of the event's provisional program.

We were not satisfied that these expenses constituted 'associated costs' and were necessary to incur in attending the conference, given that the conference included an official dinner. In this instance, it is our view that the purchase of alcohol is not a proper use of public money.

We concluded that the Council did not demonstrate the proper use of public money when incurring these expenses.

Meeting meals

We were not satisfied that Council staff and the transaction's reconciliation records adequately and correctly explained the purpose of the expenditure.

The itinerary records that the conference attendees were scheduled to arrive in Adelaide at 6.30 pm on 21 June 2017. The tax invoice records that three meals were purchased at 7.27 pm on 21 June 2017 and provides the initials of the two elected members and the Mayor's spouse. Based on this information, we concluded that the meals were purchased on the way home from the airport and were a reasonable cost associated with attending the conference. We concluded that the expense was a proper use of public money, however the Council could improve its records to correctly and accurately explain the business purpose of the expenditure.

1.4 What we concluded

We concluded that:

- the Council clearly justified that the conference was for business purposes
- the expenditure for the flights and meals (while travelling) were made in line with Council policy and were authorised. This expenditure was a proper use of public money
- the expenditure incurred to cover the Mayor's spouse's costs in attending the event did not demonstrate the proper use of public money
- the expenditure for refreshments at the Canberra casino did not demonstrate the proper use of public money
- the purchase of alcohol is not a 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 ²⁵
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 ²⁶
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 ²⁷
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 ²⁸
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)

²⁵ Victoria State Government Health and Human Services 2017, *Guidelines for CEO and Executive Business Expense Policy*, September.

²⁶ *ibid.*

²⁷ Australian Government's Australian Digital Health Agency 2016, *Travel, Allowances and Expenses Policy*, V1.1, 12 September.

²⁸ 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 ²⁹
The Council	The Coorong District Council

²⁹ *ibid.*

