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of South Australia

Report of the Auditor-General

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Examination of governance in
local government: June 2017

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Dear President and Speaker

**Report of the Auditor-General: Examination of
governance in local government: June 2017**

Pursuant to section 32(3) of the *Public Finance and Audit Act 1987*, I present to each of you a copy of my Report on the 'Examination of governance in local government: June 2017'.

Content of the Report

In accordance with section 32(1)(a) of the *Public Finance and Audit Act 1987* the Auditor-General may examine the accounts of a publicly funded body and the efficiency and economy of its activities. In February 2017 I reported that I had examined three publicly funded bodies: two councils (City of Marion and The Barossa Council) and a regional subsidiary (Adelaide Hills Region Waste Management Authority (AHRWMA)).

My February report communicated my findings on the examination of the two councils and this report communicates the findings from the examination of the AHRWMA.

Acknowledgements

The audit team for this report was Andrew Corrigan, Satish Chandra Akula and the Local Government audit team.

I would like to record my appreciation for the cooperation and assistance provided by the staff of the AHRWMA during the course of the examination.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson'.

Andrew Richardson
Auditor-General

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1 Executive summary

1.1 Background

South Australia has 68 councils that govern and manage their local areas in accordance with the *Local Government Act 1999* (LG Act). A council acts as a representative, informed and responsible decision maker in the interests of its community. As such, a council is primarily accountable to its community for the use of public money and its performance in providing services and carrying out various activities. In doing so, a council seeks to ensure that its resources are used fairly, effectively and efficiently.

To help perform their functions, two or more councils (the constituent councils) may establish a regional subsidiary under section 43 of LG Act. A regional subsidiary may provide a specified service(s), carry out a specified activity or perform a function of the councils.

Like councils, a regional subsidiary has comprehensive administrative and financial obligations as provided in the LG Act and its charter. These include developing business plans, establishing audit committees and presenting audited financial statements to its constituent councils.

As part of the examination of governance arrangements in local government¹ we examined a regional subsidiary, the Adelaide Hills Region Waste Management Authority (the Authority). The purpose was to determine whether its activities are being managed efficiently and economically through a sound governance and accountability framework. Key principles of good governance that this examination focused on include administrative arrangements, management and oversight, transparency and accountability and conduct. Further details of our audit scope are provided in section 2.

1.2 Audit conclusions

Overall, the Authority's governance and accountability framework is adequate for managing its activities efficiently and economically. The Authority operates with a lean organisational structure, with most of its staff resourced from the constituent councils and a part-time Executive Officer (EO).

Since 2007, the Authority has engaged in commercial activities to increase its revenue base. As it continues to grow its commercial activities, it is important that the Authority regularly reviews its long-term strategies to support its current and future operations and to achieve financial self-sufficiency. Improvement in risk management is also important in the context of the Authority's commercial activities. There is scope for improvement in other areas such as performance management and reporting.

1.3 Key findings and recommendations

Administrative arrangements (section 4.1)

The Authority is currently reviewing its charter, including the governance and administrative arrangements.

¹ First reported in the 'Report of the Auditor-General: Examination of governance arrangements in local government: February 2017', published 28 February 2017.

The Authority's governance structure supports its current operations. The Authority procures human resources from its member councils to perform its functions, thereby achieving the efficiencies of a regional subsidiary business model. The Authority has an audit committee that provides advice on matters such as financial reporting, risk management and internal controls. We recommended that the Authority regularly evaluate the audit committee's performance to ensure its intended purpose is achieved and to encourage continuous improvements in performance.

The Authority's administrative arrangements enable it to achieve a break-even operating result. The Authority continues to maintain its service levels and achieve revenue growth in direct competition with private sector providers. With the increase in commercial activity, we recommended that the Authority formally assess whether the competitive neutrality principles apply.

The Authority is currently involved in litigation over a lease dispute and settlement of the Authority's former Hartley landfill site. Despite being a member of the Local Government Association Mutual Liability Scheme (MLS), the Authority incurred \$1.4 million in legal fees as of February 2017. We recommended the Authority review and ensure its insurance arrangements are adequate and appropriate for its operations.

Management and oversight (section 4.2)

The Authority's current 10-year (2007-2017) strategic plan has not been reviewed since adopted in 2007. Over this period, the Authority's business environment has changed significantly, as it now generates about 49% of its revenue² from customers other than its constituent councils. It is timely that the strategic plan is due for review. We recommended that the Authority review its strategic plans to reflect current and future business goals, with a comprehensive review at least every four years as required by the charter.

An objective of the Authority is to be financially self-sufficient. However, the Authority did not define what financial self-sufficiency would mean to its operations or identify any initiatives to achieve this objective. The Authority provides its constituent councils with a financial benefit by reducing the fees it charges them. This has limited the Authority's ability to generate profits and establish cash reserves for contingencies. We recommended the Authority clearly define and review its strategies to achieve financial self-sufficiency.

We found that overall the Authority had good performance reporting mechanisms. We identified areas, however, where reporting could be improved to provide better information to assess the Authority's performance and to hold those charged with governance and resources to account. Such areas included adopting appropriate key performance measures and targets and reporting information to the Board on actual performance against these measures and targets.

The Authority has a draft risk management policy and a risk management plan was prepared in June 2013 without any subsequent review. We recommended the Authority approve and implement a risk management policy and plan, and assign responsibility for regular monitoring, assessing and reporting of risks.

² Landfill user charges and waste transfer station income (amounts as disclosed in note 2 of the Authority's audited financial statements for the year ended 30 June 2016).

Transparency and accountability (section 4.3)

We found that the Authority's audit committee scrutinises the Authority's activities. The Authority is also subject to external financial audits and has annual reporting requirements to its constituent councils. To maximise efficiencies, the audit committee members and external auditor are those of the constituent councils. We made recommendations to safeguard the independence and enhance the effectiveness of the audit committee and external audit function. However, we did not find any significant concerns on this matter.

We found that there is no documentary evidence of regular performance monitoring and review of staff. Further, there is no regular performance monitoring and review of the EO. We recommended that the Authority approve performance reporting policies and standards and undertake regular assessments.

Conduct (section 4.4)

The Authority actively ensures its administrative practices are of a satisfactory standard. We found this could be improved by implementing legal compliance and fraud risk management frameworks.

1.4 The Authority's response

The Authority accepted all of our recommendations. It advised of the actions to be taken to address the recommendations, with many to be completed within the next 12 months.

The Mount Barker District Council will make its Governance Officer available to help the Authority to implement improvements in its governance systems. Further, the Authority will undertake a detailed and systematic review of the LG Act and its charter to ensure the review covers all areas.

2 Background

2.1 Importance of governance in local government

A regional subsidiary has comprehensive administrative and financial obligations as provided in the LG Act and its charter. These include developing business plans, establishing audit committees and presenting audited financial statements to its constituent councils.

Governance is about the regional subsidiary's processes for making and implementing decisions and managing its resources to achieve its objectives and functions. Good governance ensures the best possible processes are in place to achieve better outcomes for both the regional subsidiary and its constituent councils and their respective communities. Best possible processes would consider the efficient and economic use of resources and effectiveness in achieving better outcomes. While a regional subsidiary may deliver effective outcomes it may not have achieved them efficiently. Deficiencies in the decision-making process and actions taken to deliver outcomes may highlight inefficiencies.

The Australian National Audit Office's Public Sector Governance Better Practice Guide succinctly states the scope and aims of good governance practice:

Public sector governance encompasses leadership, direction, control and accountability, and assists an entity to achieve its outcomes in such a way as to enhance confidence in the entity, its decisions and its actions. Good public sector governance is about getting the right things done in the best possible way, and delivering this standard of performance on a sustainable basis.³

Key principles of good governance include the following:

- Administration arrangements – implement an organisational structure to manage key activities and functions efficiently. Such arrangements should be supported by clearly defined roles, responsibilities and accountabilities.
- Management and oversight – maintain effective delegations to enable efficient decision-making, consistent with policies; reporting requirements to monitor delegated decisions and hold delegates to account; monitoring performance in achieving strategic directions, goals and financial outcomes; and effective risk management strategy that is integrated in all activities and processes.
- Transparency and accountability – implement effective systems to support the regional subsidiary's accountability to its constituent councils for its decisions and activities. Such systems include performance management and independent reviews.
- Conduct – decisions made are consistent with legislation and within the powers of the regional subsidiary; board members and employees comply with principles of good conduct.

Regular review and evaluation of the effectiveness of governance and service/activities also help to make best use of resources, achieve continuous improvement in performance and achieve better outcomes more efficiently.

³ 'Public Sector Governance: Strengthening performance through good governance', Australian National Audit Office, June 2014, p 7.

Another key principle of governance is good culture, which is outside the scope of this examination. Nevertheless it is an important principle to consider, as expressed by the Audit Office of New South Wales:

*It is important to recognise that implementing a set of processes and procedures will not deliver good governance unless they are accompanied by a good governance culture. The attitude, values, beliefs and behaviours of leaders must support good governance.*⁴

2.2 Audit objective and scope

We have examined governance in local government. The examination was conducted under section 32(1)(a) of the *Public Finance and Audit Act 1987*, which authorises the Auditor-General to examine the accounts of a publicly funded body and the efficiency and economy of its activities.

There are over 90 publicly funded bodies in South Australia’s local government sector. For this examination we randomly selected two councils and a regional subsidiary. The examination results of the two councils were provided in the ‘Report of the Auditor-General: Examination of governance arrangements in local government: February 2017’.

This report provides the results of our examination of the Authority.

The objective of our examination was to determine whether the Authority’s activities are being managed efficiently and economically through a sound governance and accountability framework. Governing an organisation efficiently and economically will lead to better outcomes for the resources employed and acquired at the appropriate time and at the lowest cost.

The audit criteria for this examination covered the aspects of governance shown in figure 2.1.

Figure 2.1: Audit criteria

Administrative arrangements	Management and oversight	Transparency and accountability	Conduct
<ul style="list-style-type: none"> • organisational structure • roles and responsibilities • policies and procedures 	<ul style="list-style-type: none"> • delegations • strategic, operational and financial planning • performance reporting • risk management 	<ul style="list-style-type: none"> • performance management • audit committee • internal audit 	<ul style="list-style-type: none"> • conflicts of interest • fraud corruption and control • legal compliance

These criteria were developed with reference to the LG Act, relevant Australian/New Zealand standards and better practice guidance on governance.

⁴ ‘Governance Lighthouse – a strategic early warning signal’, Audit Office of New South Wales, February 2015, p1.

The examination included a detailed review of documentation and discussions with relevant personnel of the Authority. It covered the period from July 2014 to August 2016.

An extensive natural justice process has been undertaken, with the initial draft report provided to the Authority's EO for review and comment in November 2016. Since December 2016 we met on a number of occasions with the Authority's representatives to further discuss the draft report. This included confirming that the factual evidence was accurate.

The Authority's comments and further documentation provided during the extensive natural justice process were considered at length in finalising this examination. We formally reported our findings in May 2017 and the Authority responded in June 2017.

Details of the actions taken or proposed by the Authority are provided in section 4.

3 The Authority overview

The Authority has been operating since October 1990 and comprises the following constituent councils:

- Adelaide Hills Council
- Alexandrina Council
- Mount Barker District Council
- Rural City of Murray Bridge.

The Authority's role is to provide sustainable waste management services for the communities of the constituent councils, covering an area of 5048 km².

The Authority's charter outlines its purpose is to:

- facilitate and coordinate waste management including collection, treatment, disposal and recycling within the region⁵
- develop and implement policies designed to improve waste management and recycling programmes and practices within the region
- regularly review the region's waste management and recycling practices and policies
- provide and operate a place or places for the treatment, recycling and disposal of waste collected by or in the areas of the constituent councils
- develop further cooperation between the constituent councils in the collection, treatment, recycling and disposal of waste for which the constituent councils are or may become responsible
- minimise the volume of waste collected in the areas of the constituent councils that is disposed of by landfill
- educate and motivate the community to achieve the practical reduction of waste through reuse and recycling initiatives
- be financially self-sufficient

and that in so doing it will give due weight to economic, social and environmental considerations.

The Authority offers the services shown in figure 3.1.

Figure 3.1: Services provided by the Authority

Service	Adelaide Hills Council	Alexandrina Council	Mount Barker District Council	Rural City of Murray Bridge	Non-member councils	Commercial customers
Landfill disposal	✓	✓	✓	✓	✓	✓
Transfer station management	✓			✓		
Waste strategy coordinator	✓		✓	✓		
General waste and recycling consulting	✓	✓	✓	✓	✓	
Coordination services for general, recycling and organic waste	✓		✓	✓		

⁵ The charter defines the region as the collective areas of the constituent councils.

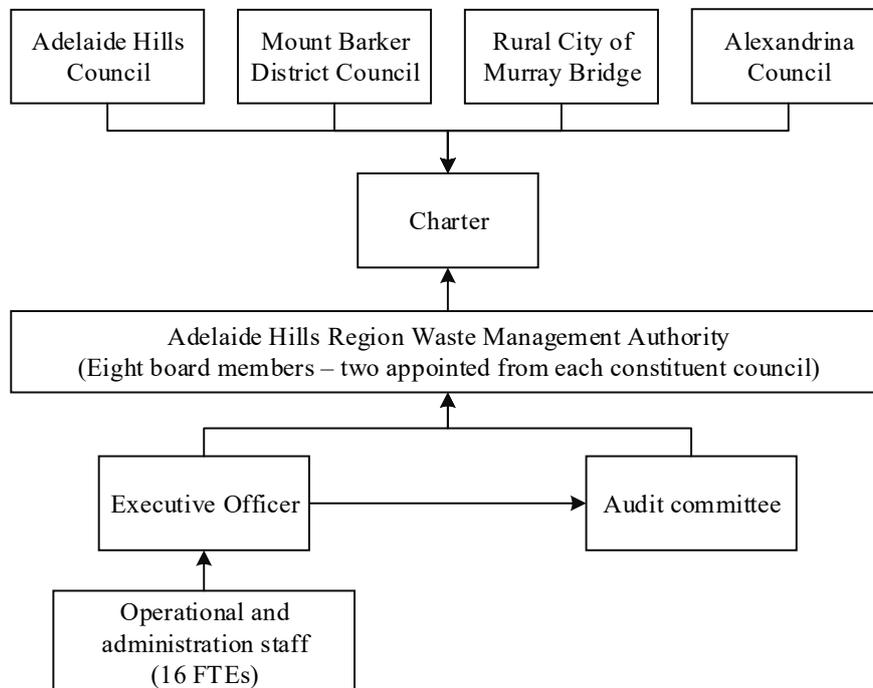
3.1 The Authority snapshot – year ending 30 June 2016⁶

In 2015-16, the Authority made an operating loss of \$400 000, largely due to an extraordinary expense for a current legal dispute in the Supreme Court of South Australia. The Authority has \$1.8 million in equity leveraged against fixed assets.

The Authority services about 52 000 households based in its constituent councils' aggregate area of 5048 km².



3.2 The Authority's governance structure



⁶ Data sourced from the Authority's 2015-16 annual report.

The Board

The Authority is a body corporate and is governed by its Board. The Board comprises eight members, being an elected member and an employee appointed by each constituent council. The constituent councils exercise joint control over the Authority through a charter approved by the Minister and provides the Board's governance framework. The Board is responsible for managing the Authority's activities and acting in accordance with its charter. The Authority is currently reviewing its charter, including the governance and administrative arrangements. The Board's functions include:

- formulating strategic and business plans
- providing policy direction to the Authority
- monitoring the performance of the EO
- ensuring business is undertaken in an open and transparent manner and maintaining ethical behaviour and integrity
- implementing policies consistent with the National Competition Policy and the *Trade Practices Act 1974*
- ensuring the Authority functions in accordance with its objects and purposes and within its approved budget.

The Executive Officer and staff

The Authority appointed a part-time EO. The Board has delegated responsibility to the EO for the day-to-day management of the Authority, who ensures that sound business and human resource management practices are applied in the efficient and effective management of the Authority's operations. The EO is supported by operational staff to carry out the functions of the Authority.

Audit committee

The Authority has established an audit committee that advises the Board. Its primary role is to oversee the effective conduct of the Authority's responsibilities in financial reporting, risk management, maintaining reliable internal control systems and facilitating an ethical culture.

The audit committee comprises two board members, including the Chair, and an independent member who is also an independent audit committee member of one of the constituent councils.

4 Detailed findings

4.1 Administrative arrangements

4.1.1 Background

To conclude on whether the Authority is governing its activities efficiently and economically, we examined whether the:

- governance structure is reviewed regularly to ensure it remains appropriate for managing its key activities and the best use of resources
- Authority monitors the operation and performance of its committee(s)
- roles and responsibilities of committees and key personnel are clearly defined. This includes appointed members collectively having the necessary skills and experience for the purposes of the committee
- Authority has endorsed policies that establish how key activities are to be conducted.

4.1.2 Positive Authority administrative practices for good governance

Our examination found that:

- despite competition from private sector providers since 2006, the Authority has continued to maintain its service levels and achieve revenue growth
- accounting services are provided by Alexandrina Council. This alleviates the costs and internal resources required to perform accounting services within the Authority.

We also identified areas that should be improved to achieve better governance. These are outlined in sections 4.1.3 to 4.1.7.

4.1.3 Reassessment of insurance arrangements is needed

Recommendation

The Authority should review its insurance arrangements to ensure they are adequate and appropriate for its operations. In doing so, we recommend the Authority liaise with the MLS to get a better understanding of its current insurance coverage.

The Authority should maintain appropriate documentation of its insurance arrangements.

Finding

The Authority is a member of the MLS. The Local Government Association of South Australia manages this scheme in accordance with the Scheme Rules and provides discretionary indemnity to its members.⁷ The MLS's objectives are to provide members with assistance for their potential and actual civil liabilities, including but not limited to:

- advice to minimise the occurrence and severity of all civil liabilities

⁷ For further information on the MLS refer to 'Report of the Auditor-General: Examination of the local government indemnity schemes: September 2015'.

- assistance with the administration, investigation, management and resolution of all claims
- legal representation for all claims
- financial assistance through discretionary grants for members' civil liabilities.

The Scheme Rules define civil liability to be any liability not being criminal resulting from an obligation, function, power or duty of a scheme member arising under law. It is at the Local Government Association of South Australia's discretion as to whether it will grant indemnity for a claim sought by a scheme member.

The Authority is currently involved in a litigation in the Supreme Court of South Australia over a lease dispute and settlement of the Authority's former Hartley landfill site.

Since December 2013 the EO has sought, on a number of occasions, assistance from the MLS's scheme manager to clarify whether or not the claim would be covered. In March 2016, the scheme manager advised, based on legal advice, that the litigation was not a civil liability within the meaning of the Scheme Rules as it did not arise from the Authority performing an obligation, function, power or duty arising under the law. The Authority accepted this advice and continued to defend the litigation, costing about \$1.4 million as of February 2017.

The Authority has not sought any potential affordable/feasible alternate arrangements should similar events occur in future. Effective risk management strategies, such as having adequate, appropriate and cost-effective insurance, are important to mitigate the risk of financial loss.

The Authority's response

The Authority accepted the recommendations and will review its insurance arrangements in 2017. The review will include further liaising with the MLS.

4.1.4 Need to reconsider the competitive neutrality principles

Recommendations

The Authority should formally assess whether its commercial activity is a significant business activity to which competitive neutrality principles apply. Documentation supporting the assessment should be retained.

If the Authority determines that competitive neutrality principles do apply, the Authority's charter will need to be amended accordingly. Alterations to the charter require agreement of all constituent councils.

Finding

In 2006 when its charter was approved, the Authority determined that it did not undertake any commercial activities that constituted a significant business activity to which competitive neutrality principles⁸ would apply (clause 1.3 of the charter).

⁸ Refer to Local Government Association of South Australia's 'Guide to National Competition Policy and Competitive Neutrality', December 2013, for further information.

Since 2007, the Authority has engaged in commercial activities by providing landfill disposal services to commercial customers (ie non-member councils and private customers) for a service fee. The Authority operates a landfill site in direct competition with private operator(s). The Authority has actively pursued this commercial activity to maximise its revenue base.

In 2015-16, revenue from landfill and waste transfer stations contributed by customers other than constituent councils accounted for approximately 49% of the Authority's total revenue.⁹

The SA Government's 'Revised Clause 7 Statement on the application of competition principles to local government under the competition principles agreement' dated September 2002 provides the criteria to determine whether the activity is a significant business activity. The test for significance is based on the ability of the Authority to exert a substantial influence on the relevant market. It considers whether:

- the activity is primarily involved in providing services for sale in the market
- the activity has a commercial or profit making focus
- there is user charging for the services.

Further, the Authority's external auditor for 2014-15 recommended the following:

Given the increased revenue being generated from non-Member Council sources and that a review of the Authority's Charter is presently being undertaken, we recommend that the principles of competitive neutrality be considered per Schedule 2, s. L5 of the Local Government Act 1999.¹⁰

While the Authority accepted the recommendation, it is yet to be addressed.

Non-compliance with this principle may result in potential litigation from competitors and further financial loss.

The Authority's response

The Authority accepted the recommendations and will undertake a formal competitive neutrality assessment within the next 12 months. The Authority was concerned to clarify the reference to 49% of its total revenue being derived from customers other than constituent councils.

The findings indicate that 49% of the Authority's revenue is derived from transfer station and landfill charges paid by customers other than constituent councils. Transfer station charges are collected by the Authority and are then netted off against transfer station expenses. Any amount collected that is in excess of expenses is remitted to the constituent councils (as the owners of the transfer stations). While the transfer station income appears as a receipt on the books of the Authority, these funds do not form part of the revenue available to the Authority to fund operating and capital expenses (other than the netted off transfer station expenses).

On this basis, the Authority contends that approximately 28% of its revenue is derived from customers other than constituent councils.

⁹ Based on information provided in note 2 of the Authority's audited financial statements for the year ending 30 June 2016.

¹⁰ Adelaide Hills Region Waste Management Authority Audit Completion Report for the financial year ended 30 June 2015, Dean Newberry and Partners.

4.1.5 Inappropriate records of Board appointments

Recommendation

The Authority should adopt and implement a consistent approach to evidence Board appointments as required by its charter.

Finding

The Authority's charter states that a certificate signed by the chief executive officer of a constituent council will be sufficient evidence of the appointment of a board member and deputy board member. The LG Act limits the term of appointment to a maximum of four years, which must be specified in the instrument of appointment. However, members are eligible for reappointment.

We noted that the Authority did not have appropriate records to support the Board appointments as required by the charter. We found that:

- three Board appointments were communicated in emails written by staff rather than the relevant chief executive officer, with no details of tenure provided
- two current Board members were appointed before 2010 and the Authority has no relevant documentation to confirm their reappointments.

Although the Board appointments may have been approved by the relevant councils, proper records should be maintained by the Authority. The email notifications we reviewed did not provide details such as the tenure of appointment or conditions that the council may have sanctioned to address conflicts of duty and/or interest matters at the time of appointment.

The Authority's response

The Authority will develop a process for evidencing Board appointments to ensure that appointments occur in accordance with the charter. This will be implemented from the next appointment of a Board member.

4.1.6 Untimely review of policies and procedures

Recommendations

The Authority should review the adequacy of its policies and procedures in conjunction with its upcoming 10-year strategic and legal compliance reviews.

The Authority should then regularly review its policies and procedures to ensure they remain current and accurate.

Finding

An entity's good governance relies on effective, current and regularly reviewed policies and procedures being in place to support its business operations. Policies and procedures:

- guide staff to make decisions and overcome problems efficiently

- support consistent decision making across the Authority to mitigate bias risk and promote confidence in the process. This potentially reduces/avoids complaints
- provide a clear understanding of staff roles and responsibilities and clear accountability for the Authority and staff
- provide instruction on the expected actions in undertaking business activities without constant management involvement. Good procedures allow management to better control events in advance and reduce the risk of costly mistakes.

Regularly evaluating policies and procedures enables the Authority to:

- confirm policies remain relevant, achieve intended impacts and are consistent with its strategic direction and targeted outcomes (as policies are a link between the Authority's vision and daily operations)
- identify areas to improve, change and use resources more efficiently.

We found that:

- a number of the Authority's policies and procedures had not been reviewed since 2008 and some are still in draft
- the Authority does not have policies for some key matters, such as fraud and corruption control.

Some policies were adopted from model policies for councils developed by the Local Government Association of South Australia without customising to the Authority's governance model. For example, the conflict of interest and duty policy is not tailored to reflect the relationship between the Authority and constituent councils, and for personnel working for both organisations.

We understand that the Authority is a small entity with a small hierarchy of senior management that operates closely with its staff and business activities. However, clearly documented policies and procedures when communicated and familiarised to organisational staff foster confidence and eliminate bias in both decision-making and implementation processes.

Lack of current and relevant policies and procedures exposes the Authority to business risks and inefficient practices.

The Authority's response

The Authority will review the adequacy of its policies and procedures in conjunction with its upcoming 10-year strategic and legal compliance reviews. The Authority will also implement a process in 2017 for reviewing its policies periodically to ensure currency and accuracy.

4.1.7 Audit committee's performance and terms of reference need periodic review

Recommendation

The Authority should review the audit committee's terms of reference periodically and regularly evaluate the audit committee's performance to ensure its intended purpose is achieved

and to encourage continuous improvements in performance. The evaluation requirement should be documented in the terms of reference.

Finding

The Authority established an audit committee to assist the Board to meet its legislative and probity requirements under various legislative and governance frameworks.

We found that the audit committee's terms of reference were last reviewed in 2011 and there is no provision to assess its performance. It is good governance practice to review terms of reference periodically and for the audit committee to evaluate its own performance. This encourages continuous improvement and helps to ensure the audit committee is fulfilling its objectives and intended purpose. In undertaking an assessment, the audit committee should consider seeking feedback from Board members and key Authority staff.

The Authority's response

The Authority will review the audit committee's terms of reference in 2017, and will add a performance evaluation process. Evaluation of the audit committee's performance annually against the evaluation framework will commence in 2018.

4.2 Management and oversight

4.2.1 Background

To conclude on whether the Authority has mechanisms to efficiently monitor and manage performance of its key activities, we examined whether it:

- has endorsed an instrument of delegation that is regularly reviewed
- has a strategic management framework and endorsed strategic plans
- receives regular reports on actual performance against approved plans
- has a risk management framework and an endorsed risk management plan.

4.2.2 Positive Authority management and oversight practices for good governance

Our examination found that the:

- delegations are provided in the charter and the Board is considering the adequacy of the delegations in reviewing the charter
- Board receives regular reports on the Authority's financial and operational activities, including the budget-actual performance
- audit committee reports directly to the Board on all audit committee matters through its minutes and provides the external auditor's reports
- Authority, in developing the June 2013 risk management plan, conducted a business risk assessment to help management to identify, assess, treat and monitor risks. This business risk assessment involved a comprehensive analysis of the internal and external drivers that can create uncertainty for the Authority.

We also identified areas that should be improved to achieve better governance. These are outlined in sections 4.2.3 to 4.2.7.

4.2.3 Strategic plan needs to be updated

Recommendation

The Authority should revise its strategic plan to reflect current and future business goals.

The strategic plan should be comprehensively reviewed at least once every four years.

Finding

Under clause 5.1 of its charter, the Authority must prepare and adopt a 10-year strategic plan. This plan is to outline the Authority's objectives and the principal activities it intends to undertake to achieve them.

The charter also requires consultation with the constituent councils in reviewing the strategic plan at any time, with a comprehensive review being undertaken at least once in every four years.

The Authority's current strategic plan covers the 10 years from 2007 to 2017, and was prepared when the Authority was operating the Hartley landfill site. The Authority no longer operates this site and has since moved to the Brinkley landfill site, which is leased from the Rural City of Murray Bridge (a constituent council). The Authority also now manages a number of transfer stations and provides other services to complement its revenue base. As such, about 49% of the Authority's waste disposal revenue¹¹ is now derived from customers other than constituent councils.

We noted that the Authority had not reviewed its strategic plan since its adoption in 2007. Considering the Authority's business environment has changed significantly, especially as it now competes with private operators, this plan needs to be updated.

The Authority's response

The Authority accepts the recommendations. The strategic plan expires in 2017 and is currently under review. The Authority again highlighted its alternative view on the reference to 49% of the Authority's total revenue being derived from customers other than constituent councils (refer section 4.1.4).

4.2.4 Strategies to achieve financial self-sufficiency need to be defined and reviewed

Recommendation

The Authority should define its financial self-sufficiency objective. In doing so it should review its current strategies to achieve financial self-sufficiency, including establishing cash reserves.

¹¹ Landfill user charges and waste transfer station income (amounts disclosed in note 2 of the Authority's audited financial statements for the year ended 30 June 2016).

If strategies include making adjustments to the service fee charged to the constituent councils, the Authority should seek confirmation that the future funding commitments are included in the constituent councils' long-term financial plans.

Finding

The Authority's charter provides its governance and administrative arrangements, including its objects and purposes and delegated powers, functions and duties. The charter states that one object and purpose of the Authority is to be financially self-sufficient. However, the Authority did not define what financial self-sufficiency would mean to its operations or identify any initiatives to fully achieve this objective.

Being financially self-sufficient generally means having the ability to supply one's own needs without external assistance. This would mean the Authority being able to fully fund its future investments (eg asset renewals) and liabilities as they fall due through its operations or business capacity.

In 2006, the Board commissioned a study¹² to assess the sustainability of the Authority's operations at that time. The study concluded that the Authority was not sustainable given its then unfunded liabilities of \$1.3 million (including \$376 000 in borrowings) and the level of fees charged to its constituent councils. Measures were subsequently put in place to help the Authority be financially self-sufficient. They included increasing waste disposal fees and expanding the revenue base by providing services to non-member councils and commercial customers. These measures would enable the Authority to establish cash reserves, without significant annual fee adjustments, to meet future assets renewals and liabilities.

The Authority advised that in 2015, the constituent councils revised the way the Authority dealt with its profit. It was determined that the fees charged to the constituent councils would be reduced, giving them an ongoing financial benefit. This practice has limited the Authority's ability to generate profits and establish cash reserves.

The Authority's 10-year long-term financial plan (LTFP) accounts for its future funding needs. The plan includes a projection of \$1.7 million in borrowings over two years (2016-18). If projected cash flows are achieved, the borrowings will be repaid by 2022-23 while still maintaining a small growth in equity.

The Authority provides its LTFP to the constituent councils so that they can provide for their commitments to the Authority in their own LTFPs. By doing this, the Authority believes it is self-sufficient to meet all its future funding requirements.

At our request, the Authority obtained a copy of the constituent councils' LTFPs and supporting working documents. All constituent councils budgeted for waste management in their LTFPs, which included waste collection and disposal services provided by the Authority and other parties. The contributions are indexed over the life of the LTFPs.

In reviewing this information only one council separately disclosed a component (user charges) of their total contributions to the Authority. Therefore, we could not trace the Authority's budgeted future full funding projections from the constituent councils to these plans and working documents. The Authority was also unable to reconcile its LTFPs with those of the

¹² Hartley Landfill Future Directions Study (February 2007), TJH Management Services Pty Ltd.

constituent councils. In the absence of a clear link, we could not establish if the constituent councils fully budgeted for the Authority's financial projections, including periodic asset renewals and liabilities expected to mature in the next 10 years.

While the Authority's LTFP projects for all known costs and achieves growth in equity, we consider that the Authority should maintain cash reserves for contingencies (such as litigation costs) and seek confirmation from the constituent councils that all future funding commitments are included in their respective LTFPs. As owners of the Authority, the constituent councils are ultimately responsible for the full funding needs of the Authority and the provision of services to their communities. As the Authority relies on funding from constituent councils, it is prudent that the Authority confirms that the constituent councils' LTFPs clearly account for their full funding commitments.

The Authority's response

The Authority will consider its financial self-sufficiency objective in 2017 and review its current strategies to achieve financial self-sufficiency. If this review proposes to vary the service fees charged, the Authority will confirm with the constituent councils that their LTFPs cover the anticipated revenue required by the Authority to remain self-sufficient.

The content of a constituent council's LTFP is a matter for that council, subject to complying with legislative requirements. The Authority expressed the view that the findings regarding the LTFPs of councils misconceive the purpose of these plans and the level of detail required to satisfy section 122 of the LG Act and regulation 5 of the Local Government (Financial Management) Regulations 2011. Although a constituent council should include in its long-term financial management plan provision for waste services sufficient to meet the foreseeable needs of the council area, there is no need to identify within a long-term financial management plan the specific funding of any particular service provider (including the Authority).

4.2.5 The Authority's business plan could be improved

Recommendation

The Authority should prepare a business plan in the time frames provided by the charter and consider the suggested improvements identified.

Finding

A business plan is a set of programs and outcomes that an entity aims to achieve in the short term. This plan should align with the broader and long-term strategic plan and provide the basis for efficient allocation of resources through the preparation of annual budgets. It can also form the basis to assess the performance of the entity and hold those charged with governance and resources to account.

Under the LG Act, the Authority's business plan must cover a three-year period, be reviewed at least annually and include:

- a link of its core business activities to strategic, operational and organisational requirements, with supporting financial projections setting out the estimates of revenue and expenditure as necessary for the period

- performance targets
- a statement of the financial and other resources, and internal processes, required to achieve the performance targets
- performance measures to be used to monitor and assess performance against targets.

The Authority's business plan was prepared for the 2007 to 2010 period. Since then the Authority has been preparing a consolidated annual business plan, in lieu of the annual budget and three-year business plan. We found that that Authority's current business plan:

- is aligned with the 2007 to 2017 long-term strategic plan, which is outdated
- has measurable outcomes that did not have quantifiable, clear and meaningful indicators of performance. For example, one of the measurable outcomes was stated as 'Reduced cost & better outcomes for transfer station operations'. It is unclear how this would be measured and assessed for performance. A clearer statement might be to 'reduce operating costs by x% in 20xx-xx compared to the prior year'
- does not provide a clear link between the objective, action and outcome sections in the business plan. For example, it is unclear how hook lift operations (action) would help to achieve financial self-sufficiency (objective) or how that would translate to reduced transfer station operating costs (measurable outcome).

We found that the business plan could be improved by:

- projecting the Authority's objectives and associated activities, targets and outcomes for a short period (for example the charter prescribes three years)
- reflecting its diverse business customers (ie members, non-members and commercial customers) with respective performance measures
- developing clear and measurable outcomes to enable performance assessment of governance, financial and operational areas of the Authority
- reflecting the service standards expected by the constituent councils.

The Authority's response

The Authority currently prepares an annual business plan and budget, rather than a three-year business plan reviewed annually. However, the Authority will accept the recommendation to prepare a three-year business plan as required by clause 5.2 of its charter. In doing so, the Authority will consider the suggested improvements. This will occur before the 2018-19 budget process.

4.2.6 Improvements needed to the Authority's business performance management and reporting

Recommendations

The Authority should:

- adopt a performance management framework that goes beyond a legislative or compliance model, and operates in conjunction with strategic, business and risk management plans

- ensure the performance reporting in its annual report is relevant and appropriately aligned with the business plan
- establish minimum standards for the form and content of performance statements (financial and non-financial) aligned with the business plan
- approve performance reporting policies and standards.

Finding

External performance reporting provides accountability to the constituent councils' ratepayers and funding providers. It includes financial reports, annual reports and other special purpose reports.

Information generated for external reporting purposes is usually a consolidation of internal performance reporting, such as internal audits and service or activity reviews. Internal performance reporting helps to prioritise and efficiently allocate resources to accomplish cost-effective delivery of programs and services.

Performance management is the process of setting agreed performance goals and monitoring progress against these goals. Unlike financial reporting, there is no generally accepted conceptual framework that underpins performance reporting requirements. Nevertheless, the LG Act requires councils and subsidiaries to report on both financial and performance outcomes through audited financial statements and annual reports respectively. Therefore, it is critical that the Authority implements a performance management framework that suits its size and scale of operations. It is equally important that the value derived from performance management is not eroded by excessive implementation costs.

In summary, a high performing entity is supported by an appropriate and effective performance management framework, with ongoing monitoring and reporting mechanisms.

We found that overall the Authority had good performance reporting mechanisms. We identified areas, however, where reporting could be improved to provide better information to assess the Authority's performance. For example:

- the business plan should include financial and operational performance measures and targets that are clear and measurable
- the current financial and operational performance reports to the Board should provide information on actual performance against the performance measures and targets in the business plan
- the 2013-14 business plan and annual report revealed gaps and a misalignment in the aims and objectives set in the annual business plan and the actual reporting in the annual report. The annual report should report on the work and operations detailing achievement of its business plan.

The Authority provides its annual business plan to the constituent councils. In addition, constituent councils are represented on the Board and therefore have access to information about the Authority. However, the performance management reporting process could be strengthened by establishing direct regular reporting arrangements with constituent councils.

The Authority's response

The Authority will consider the recommended improvements when reviewing its performance reporting mechanisms and to define and adopt a performance management framework that suits the Authority's size and scale of operations. Developing and adopting a performance management framework will coincide with implementing the three-year business plan (refer section 4.2.5).

4.2.7 Lack of regular monitoring, assessment and reporting on risk management plan

Recommendations

The Authority should approve and implement the risk management policy and plan with regular monitoring and review.

Responsibility for risks and associated control measures should be allocated to specific officers to hold them accountable for performance.

The audit committee should oversee the implementation of the risk management plan and the internal financial controls review action plan.

The EO should review the risk register and report regularly to the audit committee as determined by the action plan (ie depending on the type and level of risk) and consider a comprehensive review, at least annually.

Finding

Risk management is the process by which potential impediments and opportunities for the Authority to achieve its objectives are managed. This includes risk identification, analysis, assessment, treatment, monitoring and review. The importance of risk management is that it underpins the Authority's control environment and is therefore integral to its core governance function.

We found that the Authority's risk management policy was in draft (no preparation date was specified). A risk management plan was prepared in June 2013.

The Authority conducted a business risk assessment to help management to identify, assess, treat and monitor risks. Developing this assessment involved a comprehensive analysis of the internal and external drivers that can create uncertainty for the Authority. Further, the audit committee instigated an independent review of its internal financial controls and risks against the Better Practice Model – Financial Internal Control¹³. The report was delivered in March 2014 with several recommendations. As of September 2016, the Authority was still working to implement the recommendations.

Although the risk management plan was prepared, we noted that it has been dormant since its adoption, with no subsequent risk review and reporting. In addition, as the risk management plan and the recommendations for internal financial controls are not fully implemented we are unable to establish if the Authority derived any value from these initiatives.

¹³ 'Better Practice Model – Financial Internal Control for South Australian Councils', Local Government Association of South Australia, April 2012.

The Authority's response

In 2017 the Authority will develop, approve and implement a risk management policy and plan that covers the matters set out in the recommendation.

4.3 Transparency and accountability

4.3.1 Background

The Authority exists to manage waste on behalf of its constituent councils so it must account for its activities and performance and have appropriate systems that support this accountability. Such key systems include performance management and independent reviews.

To conclude on whether the Authority has efficient systems to support its accountability to its constituent councils for its decisions and activities, we examined:

- management's performance evaluation process and whether it is aligned with achieving the Authority's strategic objectives
- structures that provide independent review of processes and decision-making (ie audit committee).

4.3.2 Positive Authority transparency and accountability practices for good governance

Our examination found that the:

- audit committee scrutinises all financial transactions over \$20 000
- audit committee has been proactive in instigating an independent review on the internal financial controls – benchmarked to the Better Practice Model – Financial Internal Control¹⁴
- Authority has engaged the external auditor and appointed the independent audit committee member of another constituent council, which has streamlined the procurement and appointment processes
- EO's performance review was undertaken by an independent consultant, which involved gathering performance feedback both from Board members and constituent councils.

We also identified areas that should be improved to achieve better governance. These are outlined in sections 4.3.3 to 4.3.5.

4.3.3 Improvements required in staff performance management

Recommendations

The Authority should document and approve performance reporting policies and standards for the EO and staff.

¹⁴ 'Better Practice Model – Financial Internal Control for South Australian Councils', Local Government Association of South Australia, April 2012.

The Authority should ensure the EO's and staff performance assessments are undertaken regularly.

Finding

Excluding the Waste Strategy Coordinator, we found no documentary evidence of regular performance monitoring and review of the Authority's staff.

The EO's last performance review, concluded in early 2015 by an external consultant, did not refer to any key performance indicators established under the employment contract. Also, there is no formal policy or guideline on the performance management of staff.

The Authority's response

The Authority will document and approve performance reporting policies and standards for the EO and staff. Annual performance assessments for the EO and staff will occur from 2018.

4.3.4 The external auditor is not regularly rotated

Recommendation

The Authority should consider rotating its external auditor every five years.

Finding

Financial reporting demonstrates accountability to the constituent councils and other stakeholders such as the ratepayers. The annual audited financial report, comprising the financial position and performance, should be a true and fair reflection of the Authority's performance against the resources input (budget) and financial performance (business plan) expected by the stakeholders.

It is critical that the external audit is effective in its function, characterised by independence and appropriate scrutiny when certifying the financial reports. The integrity of financial reports assists external stakeholders to help assess the Authority's financial performance, including the economy and efficiency of its performance. Financial reports are useful in conducting financial analysis to gauge the Authority's financial stability, viability and profitability. For example, they can be used to undertake financial trend analysis to measure progress over a period or compare against industry standards or competitors.

The Authority appointed Dean Newbery & Partners as its external auditor in line with the Local Government (Financial Management) Regulations 2011. The auditor is selected from one of its constituent councils' existing external auditors to take advantage of the tender process selection. We note that the audit partner responsible for undertaking the audit has changed annually. However as of 2015-16, the Authority had the same external auditor for more than seven years.

The Authority should consider rotating external auditors at least every five years. Engaging an audit firm for longer may erode independence and reduce scrutiny due to familiarity and self-review threats.

The Authority's response

The Authority will consider rotating its external auditor every five years. This consideration will occur before appointing an auditor for 2018-19.

4.3.5 Consider a majority independent composition of the audit committee

Recommendation

The Authority should consider its audit committee membership composition and whether it should constitute a majority of independent members who are not related to the Authority. Also, the audit committee would benefit from having a member with experience in the waste management industry.

Finding

All regional subsidiaries are required to have an audit committee. Section 126 of the LG Act requires audit committee members to include people who are not members of the constituent councils. Employees of a constituent council are precluded to ensure that the administration staff who are closely linked to business operations are not involved in the audit committee.

Additional membership guidance is also provided by section 17(3) of the Local Government (Financial Management) Regulations 2011. For example, the audit committee of a regional subsidiary:

- must have between three and five members
- must include at least one independent person who is not a board member and has relevant financial experience
- may include members who are members of constituent Councils
- must not be the external auditor of both the subsidiary and the constituent councils appointed under section 128.

Section 6 of the Authority's audit committee's terms of reference states that membership should comprise at least three members, of which two are Authority board members, with one appointed as the presiding member. The third member, appointed by the Board, is to be independent, with experience in audit committee functions. There is an additional eligibility requirement on the independent member to also hold a position on the audit committee of one of its constituent councils. The audit committee's independent member's selection committee comprises the Board's Chair, the EO and one other board member who is also the member of the audit committee.

The Board is responsible for managing all activities of the Authority in accordance with the charter. Accordingly, the EO is delegated the responsibility to conduct the operations and affairs of the Authority in an efficient and effective manner. The Board is then assisted by an audit committee in meeting its probity and accountability requirements. The audit committee serves as one mechanism for the Board to gain oversight of management's conduct of the business.

We consider good practice is where:

- the presiding member of the audit committee is an independent member
- the majority, or all, audit committee members are non-executive board members who are also independent¹⁵

¹⁵ Non-executive board members are those who are not involved in the daily operations or senior management of the entity.

- one member is an expert in financial aspects of the entity – for example, an expert in financial management, reporting and risk management
- one member has relevant industry experience, in this case waste management.

These practices are not legislated or regulated, but reflect good practice for independence and scrutiny.

For a regional subsidiary, all the board members meet the definition of non-executive board members as they are separate from the operational/administrative management. However they are not truly independent by virtue of their appointment to represent their constituent council. Constituent councils are related parties to the Authority and are not independent to one another, although they are separate legal entities.

Clause 8.6 of the audit committee’s terms of reference on operational matters states that ‘all decisions of the Committee shall be made on the basis of a majority decision of the members present’. As the Authority’s audit committee membership comprises two board members (one of whom is the presiding member) and one independent member, a threat always prevails that the views of the independent member could be overruled by the two other members who are also board members and related to the Authority.

When the Board is assisted by an audit committee composed of a majority of independent members, the level of scrutiny on the performance of the Authority and confidence in its governance is enhanced. The Authority can then better assess the performance of its activities and implement strategies to achieve its objectives and deliver services more efficiently.

The Authority’s response

The Authority will consider the audit committee’s membership at least three months before the current members’ terms of office expire.

4.4 Conduct

4.4.1 Background

To conclude on whether the Authority is managing its activities efficiently we examined whether it has endorsed policies and protocols to support the following key areas of conduct:

- conflict of interest
- legal compliance
- fraud corruption and control.

4.4.2 Positive Authority conduct practices for good governance

Our examination found that in general the conduct of the Authority’s administrative practices is satisfactory. For example:

- staff are made aware of the procedures and systems in place to safeguard against fraud

- the Authority undertook a detailed review of its financial controls against the Better Practice Model – Financial Internal Control¹⁶
- the EO informed us that there were no instances of fraud in 2013-14 and 2014-15, except for the unauthorised entry of a vehicle to its premises where loss of property was discovered earlier. The matter was reported to the law enforcement authority with procedures followed.

We also identified areas that should be improved to achieve better governance. These are outlined in sections 4.1.6 and 4.4.3 to 4.4.5.

4.4.3 Improvements needed in the application of confidential provisions

Recommendation

The Authority should ensure minutes are subject only to the appropriate application of confidentiality provisions, balanced against public interest and accountability.

Finding

The main function of minutes is to provide a true and accurate record of what actually occurred at a meeting. Whilst necessarily brief and succinct, they are nonetheless the formal record of the business conducted. The minutes provide the legal basis for most actions taken by the governing body and allowing public access to those minutes is a means of exhibiting transparency and accountability to the community it serves.

The Board may exercise its powers under the LG Act to hold meetings in confidence and prevent those matters from public access in the minutes. However, section 91(8) of LG Act provides exceptions or limitations on applying the confidentiality provisions to withhold information in the minutes to restrict public access.

We found that the Authority appropriately applied the confidentiality provisions when considered at its meetings. We did, however, note that:

- minutes related to executive performance, remuneration and conditions of employment were kept confidential even after the matters were finalised
- minutes relating to awarding an excavator purchase tender to the successful applicant were kept confidential even after awarding the contract.

We understand the confidentiality of these matters during the meeting, but they should be subsequently reviewed and disclosed after matters have been finalised.

Also, we noted a number of instances where the minutes did not document the meeting proceedings when confidential matters were being discussed by the Board. We understand the importance of considering matters in confidence. However, in line with probity principles, all meeting matters should be documented in the minutes in case they are needed to substantiate the Board's intentions or actions at a later date.

¹⁶ 'Better Practice Model – Financial Internal Control for South Australian Councils', Local Government Association of South Australia, April 2012.

This concept is further clarified in an Ombudsman SA report, which stated:

At issue is the omission of information related to the content of the presentation. Presumably there was information of a sufficiently sensitive nature to prompt the section 90(2) meeting order in the first place. In my view a succinct summary or dot point notation should be made of the session content in the minutes. This should properly enable some understanding of what was presented and discussed at a later time when the order is lifted. This also provides a record for the council to rely on at a future time to revisit or inform an issue which has previously been explored and considered in some depth.¹⁷

Not having documented records may lead to inefficiencies and additional resources spent to defend or substantiate the Authority's actions at a later time.

The Authority's response

The Authority will apply the confidentiality of minutes provisions in line with the LG Act.

4.4.4 The Authority does not have a legal compliance framework

Recommendation

The Authority should develop and implement a legal compliance program. This program should:

- be relevant and appropriate to the Authority's business and legal environment
- achieve a balance between the compliance benefits and implementation costs.

Finding

The Authority is a statutory body corporate involved in a commercial business undertaking in the waste management market. As a public authority operating in a heavily regulated business due to its impact on the environment, its operations are affected by a range of legal and regulatory obligations imposed by all three tiers of governments.

A legal compliance program provides an opportunity to improve an organisation's performance. It also reduces the potential costs of failing to meet legal and other obligations. An effective legal compliance program should:

- optimise resources and efficiency of governance and operational practices
- formalise management responsibilities and avoid financial loss and/or damage to reputation due to non-compliance
- give stakeholders confidence in the Board's conduct of Authority's business
- better inform staff who appreciate the importance of compliance by enabling them to perform their duties consistently and in line with the Authority's policies.

¹⁷ 'In the Public Eye: An audit of the use of meeting confidentiality provisions of the Local Government Act 1999 in the South Australian Councils', Ombudsman SA, November 2012, paragraph 201.

We found that the Authority does not have a legal compliance program or policies. The Authority's 2014-15 external audit management letter recommended a statutory compliance review:

To ensure that the Authority is continuing to meet all of its legislative and regulatory obligations, we recommend that engage an external legal advisor be engaged to undertake a full legal compliance review of the Authority's operations. The review should encompass the appropriateness of recorded delegations, publication of information and access to information by the public as required, management of records, the appropriate engagement of contractors and the appropriateness of adopted policies in line with legislative and regulatory requirements. It is recommended that this review be undertaken in full consultation with the Authority's Audit Committee.¹⁸

We understand that the Authority is considering undertaking a legal compliance check in the near future. The legal compliance program should form part of the Authority's risk management strategy.

The Authority's response

The Authority will develop a legal compliance framework within the next 12 months.

4.4.5 The Authority does not have a fraud risk management framework

Recommendation

The Authority should implement a fraud risk management framework, including a fraud and corruption control plan and a fraud and corruption register. In developing a framework, the Authority should consider our comments and guidance provided in the Australian Standard AS 8001-2008 'Fraud and Corruption Control' (AS 8001).

The Authority should develop and implement specific policies, procedures and guidelines for preventing, detecting and controlling fraud, corruption, maladministration and misconduct.

Finding

The Board is charged with the governance of the Authority and is responsible for fraud prevention and detection. It is important that a culture of honesty and ethical behaviour is fostered within the Authority. Such a culture is demonstrated by having a strong set of core values that are communicated and demonstrated by management, providing the foundation for the actions of employees as to how the Authority conducts its business.

It is also the Board's responsibility to establish a control environment and maintain policies and procedures to ensure the orderly and efficient conduct of the Authority's operations and activities.

¹⁸ Adelaide Hills Region Waste Management Authority Audit Completion Report for the financial year ended 30 June 2015, Dean Newberry and Partners.

Fraud prevention strategies provide the most cost-effective method of controlling fraud within an organisation. Fraud can be perpetrated by employees or people otherwise connected with the entity (including board members, executives, contractors and volunteers), customers and external service providers, acting alone or in collusion. Research¹⁹ indicates that around 75% of fraud is being perpetrated by an employee and 47% of major frauds occur due to deficient internal controls.

Our examination noted that the Authority did have some strong controls:

- Staff are made aware of the procedures and systems in place to safeguard against fraud.
- The Authority undertook a detailed review of its financial controls against the Better Practice Model – Financial Internal Control.²⁰
- The EO informed us that there were no instances of fraud in 2013-14 and 2014-15, except for the unauthorised entry of a vehicle to its premises where loss of property was discovered earlier. The matter was reported to the law enforcement authority and followed through the procedures.

However, further improvements can be made by adopting and implementing a fraud risk management framework. This includes developing a fraud and corruption control plan and a fraud and corruption register.

In addition, the Authority should develop and implement specific policies, procedures and guidelines for preventing, detecting and controlling fraud, corruption, maladministration and misconduct.

The Authority's response

The Authority will implement a fraud risk management framework over the next 12 months. Further, the Authority will develop and implement specific fraud related policies, procedures and guidelines.

¹⁹ 'A Survey of Fraud, Bribery and Corruption in Australia and New Zealand 2012', KPMG Forensic, February 2013.

²⁰ 'Better Practice Model – Financial Internal Control for South Australian Councils', Local Government Association of South Australia, April 2012.