



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

THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008 (Audit Act)*.

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

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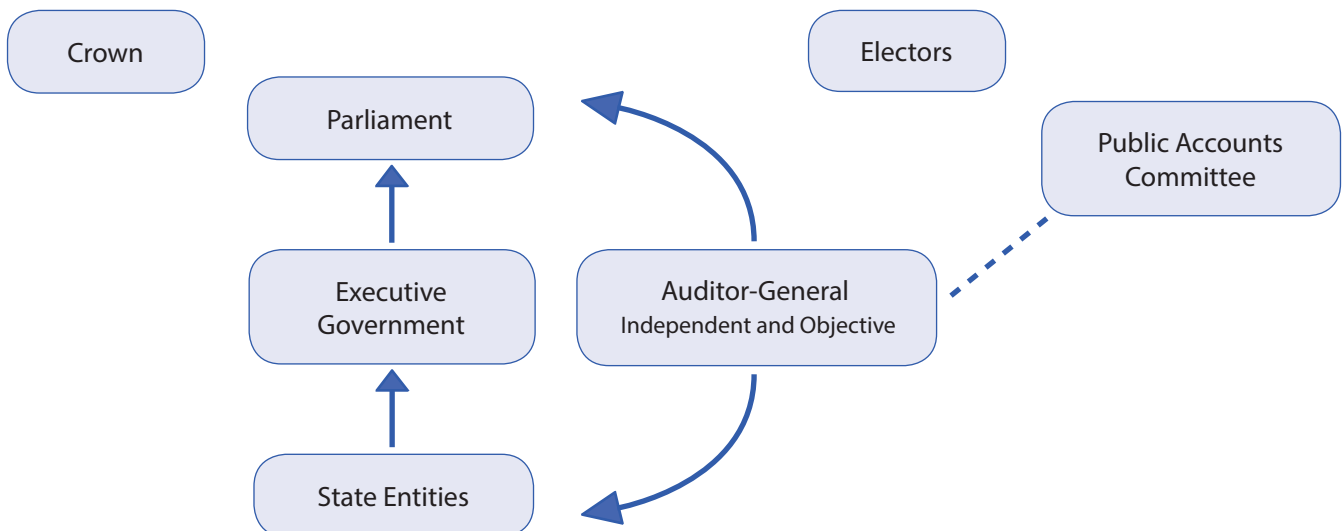
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.





**2017
PARLIAMENT OF TASMANIA**

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No. 4 of 2017-18**

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November 2017

Presented to both Houses of Parliament in accordance with the requirements of Section 30 of the
Audit Act 2008

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21 November 2017

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

REPORT OF THE AUDITOR-GENERAL

No. 4 of 2017–18: Use of credit cards by councils' general managers and elected members

This report details the findings from our probity examination into the use of credit cards issued to Tasmanian local government councils' general managers and elected members. This examination addressed whether council had effective controls over credit cards and was carried out under section 23 of the *Audit Act 2008*.

Yours sincerely



Rod Whitehead
Auditor-General

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EXECUTIVE SUMMARY

INTRODUCTION

There has been a marked increase in the use of debit and credit cards in Australia, with card payments accounting for over 60 per cent of the number of non-cash transactions.¹ Corporate credit cards are an efficient and flexible method to pay for goods and services, particularly for low value transactions, and are now a well-established part of doing business in the public sector.

Cardholders, in the public sector, are also required to assess whether a transaction represents a responsible use of public funds at the time that the expenditure is incurred by confirming that the:

- amount spent is within the public entity's approved budget
- expenditure is necessary to exercise the public entity's powers or carry out its functions
- expenditure represents value for money (for example, consideration of the financial and non-financial costs and benefits associated with procurement).

However, the convenience of credit cards creates the potential for their misuse. Examples of fraud risks associated with corporate credit cards include charging personal expenses to the card, using the card to withdraw cash for personal benefit or falsifying, destroying or damaging receipts and other records.² The misuse of credit cards can also attract considerable public interest and cause damage to a public entity's reputation.

Local government

Within councils, corporate credit cards are used by employees, including general managers, and elected members (mayors and councillors or aldermen). The *Local Government Act 1993* and associated regulations are silent on the use of credit cards in councils. It is therefore the responsibility of general managers to develop and implement policies which ensure that credit cards are used appropriately.

Good practice

In the absence of specific guidance on the use of credit cards in councils, we based our good practice expectations on:

- Treasurer's Instruction No. 705 *Tasmanian Government Card*, which provides a policy framework for all agencies covered by the *Financial Management and Audit Act 1990*
- outcomes of similar audits done in other jurisdictions
- good governance principles.

OBJECTIVE AND SCOPE

The objective of this examination was to assess how councils manage and control the use of credit cards issued to general managers and elected members to ensure both probity and propriety. All local government councils were subject to the examination, although not all councils issued cards to the general manager or elected members. The period covered was the 2016 calendar year.

EXAMINATION CRITERIA

The examination established criteria to measure how councils manage and control the use of credit cards issued to general managers and elected members. The criteria have been based on relevant legislation, guidelines, internal policies and procedures, industry standards and good practice. The criteria encompassed the establishment of policy and guidance for credit cards use and the issue, use and cancellation of credit cards and monitoring controls.

1. Reserve Bank of Australia, 2015-16 Review of Card Payments Regulations.

2. Independent Commission Against Corruption, Credit Cards, www.icac.nsw.gov.au.

Local Government Act 1993 Policies, procedures and guidance issued by council

**Issuance of
credit cards**

**Purchases made
by card holders**

**Cancellation
of credit cards**

Monitoring of credit card management and use

For the purpose of reporting, the findings of this review were grouped under these headings:

1. Was there an operational need for credit cards to be issued to general managers and elected members?
2. Were credit card policies current and accessible?
3. Were there appropriate controls around the issuing of credit cards?
4. Were there appropriate controls around the use of credit cards?
5. Were there appropriate controls around the return of credit cards?

Appendix 1 demonstrates how the review criteria have been addressed in this Report.

SUMMARY OF FINDINGS

The majority of councils issued credit cards to general managers but only 13 councils had issued credit cards to mayors. Hobart City Council was the only council that also issued cards to other elected members. Based on the volume of transactions in the 2016 calendar year, we are of the view that credit cards are an efficient and appropriate payment method for general managers but not for elected members. Instead, expenses incurred by elected members on official council business could be reimbursed in line with council policy.

Appendix 2 illustrates the criteria against which findings have been made, and the weight of the finding, for each council within the scope of this review.

Policies

Given the lack of regulations prescribing the terms and conditions for the use of credit cards in local government, a strong policy framework and effective control are important in managing risks associated with credit cards. All councils had policies for the administration and use of credit cards. However, some policies were out of date or not easily accessible.

Use of credit cards

Credit cards were predominantly used to pay for accommodation, meals and flights. Our review of selected transactions found instances:

- of non-compliance with existing policies and procedures
- where credit cards were used to make purchases that were not consistent with responsible expenditure of public funds.

Areas where policies need to be strengthened include expenditure on travel, gifts, fines and fuel as well as the use of alternative online payment methods. These areas have a high risk of misuse and fraud.

The use of credit cards for personal expenses was explicitly prohibited but councils allowed cardholders to use their credit cards to pay for charges which were not exclusively business related and then reimburse council for charges related to private use. A preferred approach would be for cardholders to use their private card and then seek a reimbursement for business related use.

Monitoring of use

All councils required cardholders to retain supporting documentation for each transaction, but some policies did not contain any guidance as to what constitutes a valid tax invoice or what should be done in situations where no documentation is available.

Every council had in place a process for acquitting expenditure by cardholders, but this process was not always detailed in the policy. Generally, purchases made by the mayor or aldermen were required to be reviewed and ratified by the general manager. However, the requirements for review and ratification of transactions incurred by the general manager varied among councils. Examples of variations in policy include:

- a requirement for the mayor to authorise the transactions
- a requirement for a suitably senior manager to review and authorise the transactions with an oversight by the elected members
- an audit panel or a similar committee being provided with details of purchases made by the general manager, although this requirement was not documented in relevant policies
- no approval process for transactions incurred by the general manager.

We also noted that some councils placed a degree of reliance on financial statement auditors to review the appropriateness of credit card purchases. We do not consider this approach to be appropriate as the purpose of a financial statement audit is to obtain reasonable assurance that the financial statements are free from material misstatement. It is the responsibility of management to review compliance with councils' policies. In this respect, councils should remove references to the financial statement audit from credit card policies and ensure that a periodic review of credit card controls is conducted by internal auditors or, where there is no internal audit function, through alternative arrangements.

Return of credit cards

Seven councils did not set out the process for returning a credit card upon cessation of employment or office in credit card policies. Further:

- three councils used an exit checklist, but it did not include a provision for the return of credit cards
- four councils did not use an exit checklist.

CONCLUSION

Although the examination found instances of policy breaches and a lack of guidance that led to different interpretations of standards of accountability, we did not find evidence of serious or systemic misuse of public funds or fraud. The primary recommendation is for the development of a model credit card policy and its adoption by all councils to maintain a degree of consistency across the local government sector.

SUBSEQUENT EVENTS

In October 2017, following receipt of the draft report for confirmation of factual accuracy:

- Break O'Day Council advised that it had updated its credit card policy and related procedures in May 2017
- Central Coast Council advised that it had updated its credit card policy in May 2017
- Circular Head Council advised that it had updated its credit card policy in June 2017
- Huon Valley Council advised that it had updated its exit checklist to ensure that credit cards are reconciled and returned at the cessation of employment
- Hobart City Council advised that it had updated the relevant credit card policy in July 2017.

The updated credit card policies and associated procedures have been reflected in the body of this Report.

RECOMMENDATION

The following recommendation has been made in response to the detailed findings.

Recommendation

The Local Government Division of the Department of Premier and Cabinet develop, in consultation with councils and other relevant stakeholders, a model credit card policy that provides clear guidance relating to:

- expenditure on entertainment, travel, gifts, fines (infringement notices), fuel and fuel-related products
- use of the card by other staff members
- alternative online payment methods.

EXAMINATION COST

The cost of the examination was \$126 693.

SUBMISSIONS AND COMMENTS RECEIVED

In accordance with section 30(2) of the *Audit Act 2008*, a summary of findings, with a request for submissions or comments, was provided to the Treasurer, Minister for Local Government, the Director of Local Government within the Department of Premier and Cabinet, and councils subject to this examination. Responses, or a fair summary of them, are included in Appendix 3.

DETAILED FINDINGS

1. WAS THERE AN OPERATIONAL NEED FOR CREDIT CARDS TO BE ISSUED TO GENERAL MANAGERS AND ELECTED MEMBERS?

The purpose of using credit cards is to facilitate and simplify the procurement process, particularly for low value transactions. However, there is a risk that credit cards may be misused, leading to the misappropriation of public resources and damage to a council's reputation.

For this reason, we expected that credit cards would only be issued to people who have a genuine operational need to use a credit card. Examples would include people who are regularly required to travel on council business or people who regularly purchase goods or services on behalf of council. Cardholders must also have the delegated authority to commit or incur expenditure.

Cards issued to general managers

General managers are responsible for day-to-day operations and the management of councils' resources and assets.³ General managers have the authority to commit or incur expenditure as long as councils' funds are spent within the approved budget and for the purpose of exercising councils' powers or carrying out its functions.⁴

There were 24 councils that had issued their general managers with credit cards as at December 2016. On average, general managers made six purchases per month. The average frequency of use indicated that credit cards were an appropriate payment method for general managers. A summary of the transactions made by general managers is provided in Table 1.

Table 1: Summary of transactions made by general managers in 2016

Council	Total number of transactions	Total value (\$)	Maximum transaction amount (\$)	Maximum spend in a month (\$)	Credit limit (\$)
Break O'Day	69	10 830	1 390	4 260	5 000
Brighton	121	24 780	2 430	4 310	5 000
Burnie City	65	13 750	2 500	3 160	10 000
Central Coast	31	23 870	4 170	4 720	10 000
Circular Head	96	8 350	750	1 600	4 000
Derwent Valley	46	17 440	5 000	6 350	10 000
Devonport City	63	17 390	3 340	5 460	10 000
Dorset	137	11 340	760	2 840	5 000
Flinders	16	2 140	400	1 210	5 000
George Town	45	13 930	2 810	3 970	10 000
Glamorgan Spring Bay	143	14 000	1 350	3 000	5 000
Glenorchy City	59	40 770	5 200	6 820	10 000
Hobart City	Not applicable - a credit card was not issued to the General Manager				
Huon Valley	21	8 350	1 200	2 910	10 000
King Island	109	22 790	860	5 150	6 000
Kingborough	37	16 960	2 000	4 420	5 000
Latrobe	60	8 670	840	2 370	5 000
Launceston City	119	19 380	1 060	4 080	10 000
Meander Valley ^a	72	17 520	1 160	5 230	10 000
Sorell	51	3 320	780	990	10 000
Southern Midlands	64	19 490	1 560	3 640	4 000
Tasman	21	1 250	340	430	3 000
Waratah-Wynyard	93	29 980	5 090	9 460	10 000
West Coast	110	25 550	2 230	5 360	7 000
West Tamar ^a	23	4 980	1 300	2 520	5 000

Note a. New general managers commenced at Meander Valley and West Tamar Councils during 2016. The figures reflect the transactions made by the former and current general managers.

3. Part 7, Division 1 of the *Local Government Act 1993*.

4. Section 74 of the *Local Government Act 1993*.

Cards issued to elected members

Elected members are collectively responsible for setting the annual budget for a council and to monitor its implementation.⁵ Elected members are entitled to be reimbursed for reasonable expenses.⁶ Elected members may also be issued a credit card if a genuine operational need exists.

As at December 2016, 13 councils had issued credit cards to elected members. The majority of cards were issued to mayors. The exception was Hobart City Council that had issued credit cards to the Lord Mayor and nine of its 11 aldermen.

We reviewed the transactions made by all elected members in 2016 and found that:

- seven councils were paying annual fees of between \$40 and \$75 for credit cards issued to elected members
- a number of credit cards were being used infrequently, with an average of one purchase made per month.

We concluded that credit cards were not a necessary payment method for all elected members due to the nature and volume of transactions and the cost associated with issuing some credit cards. Instead, expenses incurred by elected members on official council business could be reimbursed in line with council policy.

A summary of the transactions made by elected members is provided in Table 2.

Table 2: Summary of transactions made by elected members in 2016

Council	Number of cards issued to elected members	Total number of transactions	Total value (\$)	Maximum transaction amount (\$)	Maximum spend in a month (\$)	Credit limit (\$)
Burnie City	1	6	210	90	90	5 000
Central Coast	1	10	3 180	730	730	3 000
Circular Head	1	25	3 880	1 160	1 240	2 000
Derwent Valley	1	3	150	50	50	Card cancelled
Devonport City	1	105	17 120	1 620	4 510	10 000
Dorset	1	54	7 070	830	2 640	5 000
Flinders	1	6	510	110	180	2 000
Hobart City ^a	10	50	1 190	80	80	75 000
Launceston City	1	4	410	170	170	2 500
Meander Valley	1	6	2 080	910	950	5 000
Sorell	1	13	960	150	290	2 000
Tasman	1	2	160	130	170	2 000
Waratah-Wynyard	1	34	2 890	770	820	5 000

Note a. Credit cards were issued to the Lord Mayor and nine of the 11 aldermen. The figures presented in the above table reflect the total number and value of transactions on all cards.

5. Section 28 of the *Local Government Act 1993*.

6. Section 43 of the *Local Government (General) Regulations 2015*.

2. WERE CREDIT CARD POLICIES CURRENT AND ACCESSIBLE?

We expected that credit card policies and procedures:

- had been reviewed within the last three years
- were easily accessible by cardholders and other relevant staff members, such as those responsible for implementing credit card controls.

In respect to the currency and availability of credit card policies:

- The majority of councils had made the policy accessible to staff via the council's intranet, a shared drive or distribution of hard copies.
- Burnie City Council had not updated its policy since 2013.
- Waratah-Wynyard Council's policy had been in draft since 2012. The Council also advised that the draft policy was not easily accessible by staff.
- Glenorchy City Council had not updated its policy for at least four years. The issue of policies and procedures not being reviewed by their review dates had been raised with Council as part of our financial statement audits since 2012–13. At that time and in subsequent years, we had been advised that the purchasing card procedure was being reviewed as part of Council's broader review of procurement.
- King Island Council had not updated its policy since 2010.
- Southern Midlands Council had not updated its policy since 2009.
- Meander Valley Council advised that its policy was accessible by the employees to which it relates, but is not accessible by all employees.

3. WERE THERE APPROPRIATE CONTROLS AROUND THE ISSUING OF CREDIT CARDS?

We expected that credit cards were only issued if they were an efficient and appropriate response to operational requirements.

Controls around the issuing of credit cards should, at a minimum, include:

- signing of application forms for new credit cards by two authorised officers
- setting of credit and transaction limits that are consistent with the expected use of the credit card
- documented acknowledgement from the cardholder that they understand and will abide by the credit card policy and procedures relating to use.

Appendix 4 provides information on controls around the issuing of credit cards that could be incorporated by councils in credit card policies.

3.1 Were applications for new cards approved and authorised?

In general, the issuing of a new credit card needed to be approved by the general manager and authorised by two bank signatories. However, guidance on the approval and authorisation process could be improved by:

- Burnie City, Glamorgan Spring Bay, Sorell and Waratah-Wynyard Councils by specifying who could approve the issuing of credit cards
- Brighton, Dorset, Launceston City, Meander Valley, Tasman and West Coast Councils by specifying who could approved the issuing a credit card to the general manager.

We noted that, in practice, councils used application forms from their financial institution to document the approval of new credit cards. However:

- a number of councils did not retain the authorised credit card application forms, even if the card was still in use
- an application form for one financial institution only required one authorised officer's signature.

3.2 Were credit and transaction limits appropriate to the council's requirements?

Credit and transaction limits help councils to manage the risk of credit card misuse and fraud. Limits are set at the time that the credit card is issued and can be revised if the limit is no longer consistent with the council's requirements.

Central Coast, Circular Head, Devonport City, Dorset, George Town, Latrobe, Sorell and Waratah-Wynyard Councils could improve their existing credit card policies by providing guidance on setting credit limits.

The credit limits that have been applied to the cards within the scope of this review were often not appropriate in the context of the council's requirements. The average difference between the credit limit and the maximum monthly account balance was \$4 100. Table 3 provides some examples of cards for which the credit limit could be reduced on the basis of the size of maximum account balances during 2016.

Table 3: Credit card limit compared to the maximum monthly account balance in 2016

Council	Cardholder	Credit limit (\$)	Maximum monthly account balance in 2016 (\$)
Hobart City	Mayor	30 000	80
Sorell	General Manager	10 000	990
Huon Valley	General Manager	10 000	2 910
Burnie City	General Manager	10 000	3 160
Devonport City	Mayor	10 000	4 510

Councils should periodically review credit limits to ensure they continue to be set at levels appropriate to the council's requirements.

Further, transaction limits were set at the same amount as the credit limits. Transaction limits control how much can be spent in one transaction, with transactions over the set limit declined, thus minimising potential losses from fraudulent transactions or if the card is lost or stolen. Councils' policies should also provide guidance on setting transaction limits.

3.3 Did cardholders acknowledge that they understood and will abide by the credit card policy?

An acknowledgement form signed by the cardholder documents the cardholder's acceptance of the conditions of credit card use, which typically includes:

- using the credit card for official council business only
- retaining the required documentation to support the transactions made with the card
- the potential for disciplinary actions if the card is not used in a way that is consistent with the credit card policy and associated procedures.

Brighton, Burnie City, Derwent Valley, Dorset, Huon Valley, Tasman, Waratah-Wynyard and West Coast Councils did not specify in credit card policies that an acknowledgement form must be signed at the time a credit card is issued. In addition:

- Hobart City, King Island and Sorell Councils used an acknowledgement form, but the form was either not signed or could not be located at the time of testing.
- Central Coast, Circular Head and George Town Councils did not use a form at the time that the General Manager's card was issued, but it is now standard practice to sign an acknowledgement form when a card is issued to a Council employee.

4. WERE THERE APPROPRIATE CONTROLS AROUND THE USE OF CREDIT CARDS?

It is good practice for public sector entities to restrict credit card use consistent with the responsible expenditure of public funds. We expected that councils would, at a minimum, prohibit the use of credit cards for cash withdrawals, entertainment expenditure, payments of fines and personal transactions.

Furthermore, we expected that councils would require every cardholder to acquit their credit card expenditure and the acquittal be authorised and completed within a specified time.

Appendix 4 provides information on controls around credit card use that could be incorporated by councils in credit card policies.

4.1 Were appropriate controls around the acceptable use of credit cards in place?

General managers and elected members made almost 2 000 credit card purchases totalling approximately \$413 000 in 2016. The majority of these purchases were for accommodation (234 transactions totalling \$85 500), meals (158 transactions totalling \$8 100) and flights (124 transactions totalling \$59 300).

We reviewed around 190 transactions with a total value of over \$80 000. These transactions were selected based on their description or amount. Although the review did not examine every transaction and some councils may have been over-represented in the sample, the transactions we tested helped us to identify instances:

- of non-compliance with existing policies and procedures
- where credit cards were used to make purchases which were not consistent with the responsible expenditure of public funds.

We selected the following examples to illustrate the areas where existing policies could be strengthened to ensure councils follow good practice for public sector entities.

Entertainment

Entertainment refers to the provision of food or drink even if business discussion or transactions occur, but excludes, for example, meals on business travel overnight.⁷

While councils' policies identified the information required to ensure that councils complied with the *Fringe Benefits Tax Act 1986*, the policies were generally silent on the instances in which entertainment expenses were appropriate or the controls that were in place.

We found that credit cards were often used to pay for meals and functions involving staff, elected members and third parties. For example, the descriptions on credit cards statements revealed that \$7 300 was expended on farewell and Christmas functions across seven councils.

We believe the use of credit cards to pay for entertainment expenditure may be common across councils due to the lack of guidance in policies and limited controls in place. Controls around entertainment expenses can be strengthened by:

- establishing when the provision of entertainment or hospitality by council staff or elected members is appropriate and the level of accountability for these activities
- entertainment expenses being regularly scrutinised by the audit panel
- where possible, gaining approval from the council's executive group in advance of entertainment expenses being incurred.

Travel expenses

Credit cards were often used to pay expenses incurred in the course of business travel. However, we noted several purchases above what we regard as reasonable rates for flights, accommodation and meals.

For example, we found that the General Manager of Glenorchy City Council purchased business class flights to travel to the Local Government Chief Officers Group conferences in Western Australia and the Northern Territory. The tickets were purchased based on a verbal understanding between the Mayor and the General Manager that it was appropriate for a general manager to travel in business class for flights longer than three hours. However, this was not in line with Council's travel policy, which stated that 'staff should endeavour to book the cheapest airfare available'. It is our view that the purchase of business class tickets for domestic flights is generally not justifiable.

7. *Income Tax Assessment Act 1997*, Section 32.10 Meaning of entertainment

In another example, the General Manager of Southern Midlands Council used his credit card to buy himself, the Mayor and the Mayor's spouse dinner while in Canberra for a conference. The dinner was also attended by two representatives from a neighbouring council, who paid for their own meals. The Southern Midlands Council's policy allowed for the cost of conference dinners for partners to be paid for by the Council (if not included in the registration fee), but required meals other Conference functions to be paid for by the partner. This meal was deemed, by Council, to be a valid part of the conference and therefore the cost of the dinner was to be met by Council. We are of the opinion that, if general managers or elected members are accompanied by their partners when travelling interstate, the costs related to the partner should not be covered by councils as the costs are private in nature.

We view the lack of guidance in respect to travel and the expenses incurred to be a general issue across councils. Councils' policies should specify:

- the class of travel that cardholders are allowed to purchase, including instances where an upgrade to business class is appropriate
- recommended limits for overnight accommodation, meals and incidental expenses (such as the reasonable travel allowance rates published by the Australian Taxation Office⁸)
- the circumstances in which payment of expenses relating to other council employees and third parties is considered to be appropriate.

Council's policies should also prohibit minibar purchases, in-room movies and other similar expenses of a private nature.

Gifts

We noted 23 instances, with a total value of \$3 300, in which credit cards were used to purchase flowers or small gifts for employees or members of the community. In one instance, the former General Manager of West Tamar Council received authorisation from the Mayor to purchase his own retirement gift using his Council credit card.

If this above example is excluded, the average transaction amount was \$90, with some of these transactions involving the purchase of multiple gifts. In this respect, we do not consider the purchasing of gifts by cardholders to be widespread across councils. However, councils' policies should either prohibit the use of credit cards to purchase gifts or provide guidance on what is an acceptable gift for an employee, elected member or a third person and the maximum value.

Personal transactions

Policies already prohibit the use of credit cards for personal expenditure. Personal expense transactions should not be permitted even if it is the cardholder's intention to reimburse the personal component of the expense. For example, the General Manager of Brighton Council used Council's credit card to pay for his home internet and telephone expenses and then reimbursed Council for the cost of private use. A preferred approach would be for the General Manager to use his private card to pay for the charges and then seek a reimbursement for council related use.

We found that this approach was adopted for a relatively small number of transactions across councils, but one that can be addressed through increased awareness of policies and procedures and improved monitoring of credit card transactions.

8. TD 2017/19 sets out the reasonable amounts for domestic travel expenses, according to salary levels and destinations, for the 2017–18 income year.

Fines

While the majority of policies reviewed did not address whether credit cards could be used to pay fines, we only found two cardholders that had used their credit card to pay parking fines. Specifically, the General Manager of:

- Glamorgan Spring Bay Council used his card to pay parking fines on four occasions
- Brighton Council used his card to pay parking fines on seven occasions.

Brighton Council allowed for parking fines to be paid by Council if the fine was '*...incurred during a work related incident (eg meeting, Conference etc)...*'.

The use of credit cards to pay parking fines should be prohibited as Council employees can use car parking facilities that allow for a meeting or conference to take longer than expected.

Fuel

The majority of councils' policies did not address the use of credit cards to pay for fuel or fuel-related products.

We identified 63 transactions across 14 councils in which credit cards were used to purchase fuel or fuel-related products. For example, we noted that the mayor of Sorell Council used his credit card to refuel his private vehicle which he also used for official council duties. Elected members should instead claim the costs relating to use of their private vehicles in accordance with Council policy.

As the total value of these transactions was \$3 700, we do not view this as a significant issue across councils. However, councils should:

- ensure policies only permit the use of credit cards to purchase fuel for fleet vehicles when a fuel card is not available
- reinforce the correct procedures for purchasing fuel
- improve monitoring of fuel related transactions.

Use of card by other staff members

The practice of allowing others to use the credit card increases the potential for fraud or misuse.

We noted instances where credit cards were used by persons other than the actual cardholders across a number of councils. For example, the Glenorchy City Council General Manager's credit card was used by other staff members even though Council's policy stated that '*... cardholders are not to allow another staff member access to their corporate purchasing card number*'. We were able to confirm that these purchases were made with the knowledge of the cardholder.

We are of the opinion that:

- only the person issued with a credit card should be allowed to use that credit card
- cardholders should not let employees record and share their credit card number.

Alternative online payment methods

We identified 59 transactions totalling \$12 200 made through alternative providers such as PayPal. While such online payment methods are a convenient and secure way to pay for products and services bought online, there is an increased risk of misuse due to:

- inadvertent use of corporate credit cards for private purposes if employees link the corporate card to their personal account with the alternative payment method provider
- unauthorised access due to sharing of passwords or Personal Identification Numbers (PINs)
- funds being 'frozen' if there is a dispute
- increased risk of identity theft or unauthorised access to either the online account, linked bank account or credit card
- ability to transfer funds to another bank account.

None of the policies examined dealt with alternative payment methods. Policies should specify if a credit card can be linked to online accounts held with alternative providers. Where the use of alternative payment methods is allowed, the policy should require:

- a separate approval processes for the creation of an online account
- purchases made using alternative payment methods to be treated as purchases on a credit card and be subject to the same terms, conditions and policy requirements
- the online account to be set up in the name of the staff member responsible for the credit card linked to that account
- use of the online account to be restricted to the cardholder
- the online account to be set up with the staff member's official work email address and not a personal address.

4.2 Is there an effective process in place for acquitting transactions?

The implementation of a robust acquittal process reduces the likelihood of credit card misuse and fraud. An acquittal process generally involves the cardholder:

- providing appropriate supporting documentation
- providing an adequate description of transactions to allow the authorising officer to determine whether the goods or services were used for official council business
- certifying that the goods or services were received.

All credit card policies required the cardholder to obtain a tax invoice to support each transaction made with a credit card. However, the policies of 11 councils did not provide advice on what constitutes a tax invoice. The most comprehensive advice in relation to tax invoices was provided in the credit card policies of the Circular Head and West Tamar Councils. These policies state:

A valid tax invoice should include:

- *the ABN and name of the supplier*
- *the GST-inclusive price of the purchase*
- *the date of issue of the tax invoice*
- *a brief description of each thing supplied; and*
- *when GST payable is exactly 1/11th of the total price, either a statement along the lines of 'the total price includes GST' or the actual GST amount.*

Advice in credit card policies also varied in the event that a tax invoice was not available. For example:

- Break O'Day, Circular Head, Derwent Valley, Devonport City, George Town, Glamorgan Spring Bay, Hobart City and Southern Midlands Councils required a statutory declaration
- Brighton, King Island, Kingborough and Launceston City Councils stated that the cardholder was personally liable
- West Tamar Council required the cardholder to provide written detail of transactions
- Glenorchy City Council required the cardholder to obtain replacement documentation.

The remaining councils in scope were silent on the process that needed to be followed when a tax invoice was not available.

In this respect, TI 705 states:

"In the absence of a tax invoice or original receipt, the cardholder shall provide sufficient information regarding the transaction to satisfy an authorising officer who is appropriately delegated by the Head of Agency. The supporting information should include details of the transaction purpose, date, time, amount and vendor name.

Every attempt should be made to obtain formal original documents in support of transactions."

We reviewed a sample of December 2016 statements to test whether the cardholder had:

- provided supporting documentation and a description of the transaction
- signed the statement to attest that the transactions incurred were consistent with the policies and procedures of the council.

We also found that:

- inadequate supporting documentation was provided by cardholders from Burnie City, Devonport City, Dorset, Flinders, Glamorgan Spring Bay, Tasman and Waratah-Wynyard Councils
- inadequate descriptions were provided by cardholders from Brighton, Devonport City, Latrobe and Tasman Councils
- one December 2016 statement from Flinders Council had not been signed by the cardholder.

In one example, the General Manager of Brighton Council provided a statutory declaration in support of several transactions eight months after the purchases were made, including accommodation charges. The General Manager should have requested a copy of the original invoice from the accommodation provider. Councils' policies should require cardholders to make every effort to ensure every transaction is adequately supported by a GST compliant tax invoice. A statutory declaration outlining the full details of the transaction should be provided only after exhausting all reasonable avenues.

4.3 Is there an effective process in place for reviewing transactions?

In our Report No.6 of 2015-16⁹, we:

- noted that:
 - the *Local Government Act 1993* did not allow for a person who was not an employee of council to authorise expenses
 - it was necessary for a suitably senior employee to authorise the general manager's credit card transactions
- recommended that the credit card purchases made by the general manager be disclosed to and scrutinised by an appropriate committee, such as an audit panel, on a regular basis.

The recommendation made in Report No.6 of 2015-16 had not been reflected in any of the credit card policies examined.

Advice provided in credit card policies on the review process varied with:

- Break O'Day, Central Coast, Circular Head, Devonport City and Kingborough Councils requiring the mayor to scrutinise the general manager's credit card expenditure and another suitably senior manager to approve the expenditure
- Derwent Valley, Glenorchy City, Latrobe, Sorell and Waratah-Wynyard Councils not providing any guidance around the approval of the general manager's credit card transactions
- Dorset, Flinders and King Island Councils requiring the mayor to authorise purchases made by the general manager—this approach did not comply with the *Local Government Act 1993* as an elected member is not a council employee
- Burnie City and Southern Midlands Councils not referring to an independent review or the approval of credit card transactions.

9. Report of the Auditor-General No. 6 of 2015-16 - *Auditor-General's Report on the Financial Statements of State entities - Volume 3 - Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15, November 2015.*

We reviewed a sample of statements to confirm whether expenditure had been reviewed by an independent officer. We found that the majority of statements had been reviewed, although:

- statements from Burnie City, Derwent Valley, Flinders, Hobart City and Tasman Councils had not been signed by an independent reviewer that had the power under the Act
- documentation of the review did not demonstrate that the appropriateness of transactions, such as the examples raised in Section 4.1, had been queried by the independent officer conducting the review.

We also noted that, in addition to a monthly review of purchases by the General Manager, the policies of:

- King Island Council stated that ‘the Tasmanian Audit Office will audit Business Credit Card transactions on a yearly basis, together with random audits throughout the year as deemed appropriate by the Audit Office’
- Glamorgan Spring Bay Council noted that ‘external scrutiny of the credit card expenditure will be encourage as part of the external audit processes of Council’s finances’.

Reliance on the financial statement audit is not appropriate as the purpose of a financial statement audit is to obtain reasonable assurance that the financial statements are free from material misstatement. It is the responsibility of management to review compliance with councils’ policies. In this respect, councils should remove references to the financial statement audit from credit card policies and ensure that a periodic review of credit card controls by internal auditor or, where there is no internal audit function, through alternative arrangements is conducted.

Recommendation

We recommend that the Local Government Division of the Department of Premier and Cabinet develop, in consultation with councils and other relevant stakeholders, a model credit card policy that provides clear guidance relating to:

- expenditure on entertainment, travel, gifts, fines (infringement notices), fuel and fuel-related products
- use of the card by other staff members
- alternative online payment methods online.

5. WERE THERE APPROPRIATE CONTROLS AROUND THE RETURN OF CREDIT CARDS?

We expected that councils would require cardholders to return the credit card on the day employment is terminated or when the elected member ceases to hold office. We also expected that cards would be cancelled and destroyed, when returned, to minimise the risk of unauthorised use.

Appendix 4 provides information on controls around the return of credit cards that could be incorporated by councils in credit card policies.

The credit card policies of Burnie City, Central Coast, Dorset, Flinders, Huon Valley, Launceston City and Tasman Councils did not refer to the return of credit cards upon termination of employment or ceasing to hold office.

In addition, we found that:

- Kingborough Council used an exit checklist that did not include a provision for the return of credit cards
- Derwent Valley, Dorset, Meander Valley and Southern Midlands Councils did not use an exit checklist
- Break O'Day and Huon Valley Councils used an exit checklist that did not include a provision for the return of credit cards at the time of audit—provision has now been included in the exit checklists as a result of this review.

APPENDIX 1: EXAMINATION CRITERIA

The examination addressed the objective through the criteria and sub-criteria provided in the table below. It is normal practice to report against the criteria and sub-criteria. A different approach to reporting has been used for this examination to enhance the clarity of the messages contained in the report. The table below demonstrates how the sections in the Report align with the audit criteria and sub-criteria.

Criteria	Section in the report				
	1	2	3	4	5
Was the policy framework and guidance regarding the issue, use and cancellation of credit cards appropriate?		✓	✓	✓	✓
Were the controls consistent with our good practice framework, including preventative and detective controls?	✓	✓	✓	✓	✓
Was the issue, use and cancellation of credit cards effectively controlled?			✓	✓	✓
Were individual purchases and transactions appropriate and in compliance with policy?			✓	✓	
Were council's detective controls on credit card use effective?				✓	

APPENDIX 2: SUMMARY OF FINDINGS

Council	Section								
	1	2	3.1	3.2	3.3	4.1	4.2	4.3	5
Break O'Day	✓	✓	✓	●	✓	●	✓	✓	●
Brighton	✓	✓	●	●	●	●	●	✓	✓
Burnie City	●	●	●	✓	●	●	●	●	✓
Central Coast	●	✓	✓	●	●	●	●	✓	✓
Central Highlands	Not applicable – credit cards were not issued to the General Manager or elected members								
Circular Head	✓	✓	✓	●	●	●	✓	✓	✓
Clarence City	Not applicable – credit cards were not issued to the General Manager or elected members								
Derwent Valley	●	✓	✓	●	●	●	✓	●	●
Devonport City	✓	✓	✓	●	✓	●	●	✓	✓
Dorset	✓	✓	●	●	●	●	●	●	●
Flinders	●	✓	✓	●	✓	●	●	●	✓
George Town	✓	✓	✓	●	●	●	✓	✓	✓
Glamorgan Spring Bay	✓	✓	●	●	✓	●	●	●	✓
Glenorchy City	✓	●	✓	✓	✓	●	●	●	✓
Hobart City ^a	●	✓	✓	●	●	●	●	●	✓
Huon Valley	✓	✓	✓	●	●	●	●	✓	●
Kentish	Not applicable – credit cards were not issued to the General Manager or elected members								
King Island	✓	●	✓	●	✓	●	✓	●	✓
Kingborough	✓	✓	✓	●	✓	●	✓	✓	●
Latrobe	✓	✓	✓	●	✓	●	●	●	✓
Launceston City	●	✓	●	●	✓	●	✓	✓	✓
Meander Valley	●	●	●	●	✓	●	●	✓	●
Northern Midlands	N/A credit cards were not issued to the General Manager or elected members								
Sorell	●	✓	●	●	●	●	●	●	✓
Southern Midlands	✓	●	✓	●	✓	●	✓	●	●
Tasman	●	✓	●	✓	●	●	●	●	✓
Waratah-Wynyard	✓	●	●	●	●	●	●	●	✓
West Coast	✓	✓	✓	●	●	●	●	✓	✓
West Tamar	✓	✓	✓	●	✓	●	✓	✓	✓

Note a. A credit card was not issued to the General Manager.

Sections:

- 1 Was there an operational need for credit cards to be issued to general managers and elected members?
- 2 Were credit card policies current and accessible?
- 3.1 Were applications for new cards approved and authorised?
- 3.2 Were credit and transaction limits appropriate to the council's requirements?
- 3.3 Did cardholders formally acknowledge that they understood and would abide by the credit card policy?
- 4.1 Were appropriate controls around the acceptable use of credit cards in place?
- 4.2 Is there an effective process in place for acquitting transactions?
- 4.3 Is there an effective process in place for reviewing transactions?
- 5 Were there appropriate controls around the return of credit cards?

Legend:

- ✓ Operational need clearly established, credit card policy consistent with good practice and/or the management and use of credit cards is consistent with good practice
- Operational need has not been clearly established, an opportunity to improve the credit card policy has been identified and/or the management and use of credit cards was not consistent with the good practice, but council's process have been updated since the time of audit
- Significant opportunity to improve the credit card policy has been identified and/or the management and use of credit cards is consistent with the council's policies and procedures, but not consistent with good practice
- Use of credit cards was not consistent with the council's policies and procedures

APPENDIX 3: SUBMISSIONS AND COMMENTS RECEIVED

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response.

Section 30(3) of the *Audit Act 2008* requires that this report include any submissions or comments made under Section 30(2) or a fair summary of them. Submissions received are included in full below.

Waratah-Wynyard Council advised they were unable to provide a formal comment within the timeframe provided.

LOCAL GOVERNMENT DIVISION, DEPARTMENT OF PREMIER AND CABINET

The Report notes that whilst all councils had policies for the administration and use of credit cards, not all were up to date or easily accessible. The Local Government Division has included, within its three-year compliance and audit plan, an audit of councils' policies and delegations. This is planned for November 2018.

The Report noted that evidence was found during the audit of non-compliance by councils with existing policies and procedures and also of credit cards being used to make purchases that were not consistent with the responsible expenditure of public funds.

The Report identifies significant variability in the authorisation process for credit card transactions between councils. The extent of these variations is of concern and I believe that it needs to be actively addressed as a matter of public interest. In my view, the Report's recommendations relating to a model credit card policy will potentially deal with these issues.

Issue of credit cards to elected members

The Reports' objective was to 'assess how councils manage and control the use of credit cards issued to general managers and elected members to ensure both probity and propriety'.

The *Local Government (General) Regulations 2015* provides at regulation 43 for councillors to be reimbursed for 'reasonable expenses' in accordance with a council policy adopted under the Local Government Act 1993 (the Act). The terminology used indicates that amounts paid to councillors are to be made in arrears of the expense being incurred.

The Act provides that the general manager of council is responsible for the management of the resources and assets of council. The council as a group have the responsibility for the expenditure of funds through the adoption of estimates. The legislation does not expressly provide for credit cards to elected members and instead provides the avenue described above for councillors to claim expenses.

I note the finding that credit cards are an efficient and appropriate payment method for General Managers but not elected members. I anticipate that this finding will stimulate considerable debate particularly for the thirteen councils which issue credit cards to mayors and the one that issues them to other elected members.

Model Credit Card Policy

I agree with the Report's findings in respect to the need for a model credit card policy. I note the proposed recommendation is for the Local Government Division to lead development of the policy in consultation with councils and stakeholders. While I agree in principle with this recommendation, the timing of when this work could commence would be subject to resources and other priorities.

Assistance from the Tasmanian Audit Office would aid in progressing this in a timely manner. The Local Government Association of Tasmania should also be invited to provide input. We would be very happy to work with officers from the TAO on this matter.

Appendix 4 - Credit Card Controls

The suggested controls included within Appendix 4 appear to be suitable within the local government context, however it is my view that to be of value across all councils, a model credit card policy would need to be quite prescriptive to provide the minimum necessary amount of accountability and oversight in relation to these types of transactions. I also consider that regulatory amendments may be required in addition to a model policy, and that is a policy matter that should form part of the consultation and development.

Alex Tay

Director

BREAK OF O'DAY COUNCIL

Council appreciates the opportunity to review the draft report. Council has identified no errors of fact and believes the conclusion and recommendation is appropriate.

With respect to the summary of findings, it is identified that Council has not implemented a transaction limit in our Credit Card Policy. While Council notes the risk of fraud/lost card identified, Council does not agree that a transaction limit is justified as a mitigating action. Council believes that the relatively low credit limit is an adequate mitigation and that a further transaction limit would reduce the flexibility of use that is an important attribute of the credit card for procurement.

Mick Tucker

Mayor

BURNIE CITY COUNCIL

The Council believes it has a robust delegation system and internal control measures to manage fraud risk associated with corporate credit cards. This report provides an opportunity to review and modify any deficiencies in system and processes.

The General Manager has committed to review the credit card policy taking into consideration the recommendation in your report. Responses have been provided based on the areas in which Burnie City Council was deemed to be deficient in its credit card controls.

Section 1: The use of a corporate credit card provides an efficient and practical method of transacting in the current digital environment that exists. The General Manager and Mayor therefore have an operational need particularly for transactions that demand immediate payment such as travel and accommodation, although an efficient purchase system should utilise an immediate payment method where possible to avoid the processing costs of small value transactions.

Section 2: It is accepted that a separate credit card policy is warranted. A new credit card policy, taking account of the recommendation in this report, will be developed with the aim to adopt the policy in early 2018.

Section 3.1: It is accepted that the current credit card procedure does not specify who can approve the issuing of credit cards, however they are issued under a robust delegation system with cards issued based on the financial delegation given to the General Manager. Council considers this to be an adequate control over the issuing of credit cards.

Section 3.3: This finding has merit and a process will be implemented for cardholders to acknowledge their responsibilities under a newly developed credit card policy.

Section 4.1: Guidance on acceptable use of credit cards and acceptable transactions will be considered when reviewing the credit card policy in early 2018.

Section 4.2: Guidance on the supporting information required for acquittal of transactions will be included in the updated credit card policy when adopted in early 2018.

Section 4.3: It is accepted that the previous procedure for authorisation of the General Manger's credit card (review and authorisation by the Mayor) was non-compliant with regulation and best practice. Since August 2017, the General Manager's credit card statements have been reviewed by the Mayor and authorised by Council's Executive Manager Corporate Finance. The General Manager's statements have also been tabled and reviewed at Council's audit committee since April 2017.

Ald Alwyn Boyd

Acting Mayor

DORSET COUNCIL

It is acknowledged that the intent of the report is to ensure that there are appropriate controls around of the use of Council credit cards when conducting Council business. It is also acknowledged that the drafting of a model credit card policy is a positive initiative that will provide Councils with invaluable guidance on a number of issues pertaining to credit card usage and policy. However, whilst the majority of the comments and recommendations included in this report are supported and clearly should form the basis of a model credit policy, there are some exceptions that due to practical reasons should be at the discretion of each individual Council. For example the issuing of credit cards to Mayors.

It is therefore strongly advocated that adoption of the model credit card policy not be a mandatory requirement of Councils, but rather be for guidance purposes only.

Tim Watson

General Manager

GEORGE TOWN COUNCIL

With respect to the findings relating to sections 3.2, 3.3 and 4.1 of the summary it is Council's intention in the coming months to review Council's existing Corporate Credit Card Policy to ensure that a higher level of control measures are put in place to minimise any risks associated with purchasing activities including limits and acceptable purchases by the cardholder/s and monitoring of use. The reviewed Policy will be submitted to the Audit Panel for review and consideration prior to submission to Council for endorsement.

It is worth noting that the new General Manager has made a determination that only one credit card is required within the entire organisation for the purpose of purchases limited to costs associated with the booking of accommodation and conference registrations which often cannot be secured through alternative procurement methods. It is also noted that the credit card limit has been lowered from \$10,000 to \$3,000.

Bridget Archer

Mayor

HOBART CITY COUNCIL

It is pleasing that the findings report notes that "no evidence of serious or systemic misuse of public funds, or fraud was identified". This position provides a clear pathway towards the facilitation of the key finding of the review being the development of a model policy for the local government sector, which the City of Hobart supports in the interest of good governance.

Nick Heath

General Manager

LAUNCESTON CITY COUNCIL

Section 1: Although our Mayor only used his credit card four times in 2016 it is on occasions necessary for him to travel overseas on Sister City visits or Trade Missions. It has been beneficial to have this card in place for such occasions and we continue to believe this should remain. The monthly credit card review and approval process we perform on all transactions mitigates our risks adequately in our opinion.

Section 3.1: It was noted that the credit card policy mentions the General Manager (GM) must approve all corporate cards. The policy does not specifically cover the GM and this change should be implemented. Our credit card policy will be revised to require both the Mayor and the Director Corporate Services to authorise the approval of a new card for a GM.

Section 3.2: The Executive Management Committee approved the credit and transaction limits for cards and determined the limits based on the roles of the officers needing the cards and the anticipated usage of cards. The limits had to be set high enough to enable the range of possible transactions in any given month. Again the credit card review and approval process we perform on all transaction mitigates our risks adequately in our opinion.

Section 4.1: It was noted that the credit card policy did not contain guidance on acceptable use with respect to entertainment expenditure or alternative payment methods. Our policy and procedures mention that our purchase order system for existing suppliers is preferred, however, given entertainment is a sensitive matter we should include some guidance in our credit card policy regarding entertainment.

In summary the review has been very useful to gauge the effectiveness of our controls, procedures and policy regarding credit cards and the areas we can improve in.

Michael Stretton

General Manager

MEANDER VALLEY COUNCIL

Meander Valley Council is pleased to demonstrate compliance with its credit card code of use. All purchases tested have been consistent with responsible expenditure of public funds, with no suggested instances of misuse and all purchases have been made in compliance with Council's purchasing system.

Craig Perkins

Mayor

SORELL COUNCIL

Section 1: Council was not asked about the operational needs of credit cards as part of the audit so we are unsure how some Councils were deemed to have an operational need and not others despite TAO stating that they are an appropriate form of payment for General Managers. Further, that TAO has also concluded that there is no operational need for elected members to have credit cards.

TAO response: The report found that, based on a review of the nature and frequency of transactions, there was not a clear operational need for credit cards to be issued to elected members. The report noted that the Mayor of Sorell Council only used the credit card issued by the Council on 13 occasions in 2016. The majority of these transactions were incurred when fuel was purchased for the Mayor's personal vehicle, which was also used for Council business. The Office however, acknowledges that the issuing of a credit card to an elected member is at the Council's discretion.

Section 3.1: Council Credit Card Policy will be updated to specify who should approve the issue of credit cards.

Section 3.2: Council were not asked about establishment of credit and transaction limits. It is submitted that applying a practice of limiting it to that of the average/maximum monthly spend is not entirely logical. Other than the General Manger limit of \$10 000, all other cards are limited to \$2 000.

TAO response: While the application of the above limits may be standard practice, this approach is not reflected in the credit card policy, which stated that the credit limit must be appropriate for use. In this respect, a good indicator of future use is past use and, in 2016, the maximum amount of the General Manager's monthly credit card statement was \$990. The policy also did not provide guidance on the setting of transaction limits.

Section 3.3: Noted for Mayor and General Manager. All other current cardholders had signed the policy.

Section 4.1: It is submitted that the use of credit cards was consistent with the Councils' policies and procedures and that the rating allocated to this section is not correct or accurate. It acknowledged that modifications could be made to our Policy and Procedures where applicable to be more consistent with the recommendations of TAO.

TAO response: The policy did not contain guidance on entertainment expenses, cash advances or use of alternative payment methods (i.e. PayPal). In addition, the purchase of fuel for a private vehicle using a credit card issued by Council did not align with the responsible expenditure of public funds.

Section 4.2: it is submitted that TAO advised our process for acquitting transactions was appropriate with the requirement for valid tax invoices or the provision of a statutory declaration. Accordingly, the rating allocated to this section is not correct or accurate.

TAO response: During this review, it was identified that Council employees are regularly provided with guidance on tax invoices via email. However, the credit card policy only requires documentation to be provided to support transactions and does not describe what constitutes a tax invoice.

Section 4.3: Council policy will be amended as necessary. Current practice requires signing by the Mayor and the Finance Manager. In addition, all transactions are review as part of the monthly review. It is acknowledged that the limited practice of credit card fuel purchase by the Mayor will cease and instead be processed through a monthly business mileage claim. Further modifications to the Policy to better specify processes and procedures will be undertaken and incorporated in the scheduled review.

Robert Higgins

General Manager

SOUTHERN MIDLANDS COUNCIL

The Southern Midlands Council notes 'Appendix 2: Summary of Findings' and in particular the areas that are shown where Council can either improve its Policy and/or the management and use of credits cards to be consistent with good practice. It is also acknowledged that one of the key recommendations arising from the examination was that the Local Government Division of the Department of Premier and Cabinet, in consultation with councils and other relevant stakeholders, develop a model credit card policy. In this regard, Council supports this recommendation and awaits further advice in terms of it being adopted and timeframe for developing same.

Tim Kirkwood

General Manager

TASMAN COUNCIL

Section 1: Council was not asked about the operational needs as part of the audit so we are unsure how some Councils were deemed to have an operational need and not others despite the TAO stating that they were an appropriate form of payment for General Managers. Further, that TAO have also concluded that there is no operational need for elected members to have credit cards.

TAO response: The report found that, based on a review of the nature and frequency of transactions, there was not a clear operational need for credit cards to be issued to elected members. While the report noted that the Mayor of Tasman Council only used the credit card issued by the Council on two occasions in 2016, the Office acknowledges that the issuing of a credit card to an elected member is at the Council's discretion.

Sections 3.1, 3.3, 4.1 and 4.2: Credit Card Policy will be updated to:

- specify who should approve the issue of the General Manager's credit card
- include an acknowledgement form at the time of issue
- include better control and clarity around the use of credit cards
- include minimum requirements around necessary supporting documentation and descriptions.

Section 4.3: Credit Card Policy will be amended as necessary to ensure the General Manager's statement is signed by the Mayor and the Office Manager. In addition, the General Manager's transactions will be provided to the Audit Panel for sighting periodically.

Further modifications to the Policy to better specify processes and procedures will be undertaken and incorporated in the scheduled review prior to the end of 2017-18.

Robert Higgins

General Manager

WEST COAST COUNCIL

West Coast Council is confident that our current systems and processes provide appropriate checks and balances for our minimal usage of vital Credit Cards for our remote business requirements. However, West Coast Council is continuously striving for improvements wherever possible and will embrace any suggested changes put forward by the Audit office and/or the Minister for Local Government.

Phil Vickers

Mayor

APPENDIX 4: CREDIT CARD CONTROLS

A contemporary credit card policy should incorporate the following controls:

- a. approval process for issuing credit cards and specifying who is authorised to approve the issuing of a credit card, including the general manager's card
- b. requiring authorised credit card application forms be retained as evidence of the approval process
- c. guidance on setting credit and transaction limits and requiring the limits to be periodically reviewed
- d. requiring cardholders to acknowledge their acceptance of the conditions of credit card use
- e. specifically stating that the cardholder is responsible for the custody and security of the card and outlining the consequences of credit card misuse, including a provision for personal liability for inappropriate transactions
- f. restricting credit card use to purchases consistent with the responsible expenditure of public funds, including:
 - i. prohibiting cash withdrawals
 - ii. prohibiting entertainment or if entertainment is allowed, establishing strong controls
 - iii. specifying the class of travel able to purchase using the credit card
 - iv. specifying limits for overnight accommodation, meals and incidental expenses, including whether alcoholic beverages are allowable
 - v. prohibiting minibar purchase, in-room movies and other similar expenses of private nature
 - vi. restricting payments of travel expenses to staff and elected members only
 - vii. prohibiting the use of credit cards to purchase gifts or providing guidance on what is an acceptable gift and the maximum value
 - viii. prohibiting personal transactions even if the intention is to reimburse the private expenditure
 - ix. prohibiting the payment of fines
- g. restricting the use of the card to the cardholder only or establishing controls when other people are allowed to use the card (including prohibiting the recording or sharing of credit card numbers)
- h. restricting the linking of the credit card to online accounts held with alternative providers (for example PayPal) or establishing necessary controls
- i. providing advice on what constitutes a tax invoice
- j. requiring cardholders to provide an adequate description of transactions where their nature and use is not evident from the tax invoice
- k. emphasising that every attempt should be made to obtain a tax invoice to support every transaction and specifying the process and information to be provided in the absence of a valid tax invoice
- l. acquittal process, specifying who is to authorise credit card transactions, including the general manager's transactions and appropriate oversight and monitoring
- m. providing timeframe for acquittals
- n. template application form and cardholder acknowledgement form
- o. requiring the policy and guidelines to be periodically reviewed.

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

‘An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.’

Under the provisions of section 18, the Auditor-General:

‘(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).’

Under the provisions of section 19, the Auditor-General:

‘(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.’

Standards Applied

Section 31 specifies that:

‘The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.’

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



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