



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

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. 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. 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 the 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.

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 of the Report demonstrates how the review criteria have been addressed.

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 the 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.

NOTES:

For the full report go to:
<http://www.audit.tas.gov.au/publications/reports-to-parliament/>



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