



**murchisonshire**

*Ancient land under brilliant skies*

**Audit Committee Meeting**

**27 June 2024**

**Attachments**



Report 19: 2023-24 | 12 June 2024

PERFORMANCE AUDIT

# Local Government Management of Purchasing Cards



**Office of the Auditor General  
Western Australia**

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***The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.***

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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**Local Government Management of  
Purchasing Cards**

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**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

### **LOCAL GOVERNMENT MANAGEMENT OF PURCHASING CARDS**

This report has been prepared for submission to Parliament under the provisions of sections 24 and 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of my Office's overall program of audit and assurance for Parliament. They seek to provide Parliament and the people of WA with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit assessed whether three regional local government entities effectively managed the issue, use and cancellation of purchasing cards.

I wish to acknowledge the entities' staff for their cooperation with this audit.

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

Caroline Spencer  
Auditor General  
12 June 2024

# Contents

Auditor General’s overview.....	5
Executive summary .....	6
Introduction .....	6
Background.....	6
Conclusion .....	8
Findings .....	9
Controls over the use of purchasing cards were partly effective .....	9
Controls over the issue and cancellation of cards were partly effective and require improvement .....	13
Lack of appropriate oversight of purchasing card controls.....	13
Recommendations.....	15
Response from the City of Albany .....	16
Response from the City of Kalgoorlie-Boulder .....	16
Response from the Shire of Murchison.....	16
Audit focus and scope .....	17
Appendix 1: Better practice guidance .....	18

## Auditor General's overview

Purchasing cards offer benefits for local government entities by streamlining purchasing activities. However, these benefits come with the risk of misuse and loss of public money if the purchasing cards are not effectively managed.

In this audit, we looked at the management of purchasing cards at three regional entities. While we found poor management of some important controls, we did not find clear evidence that cardholders misused public money, in part because the entities did not have policy guidance to underpin allowable and reasonable use.

This audit follows on from our 2018 audit of local government entities' use of credit cards<sup>1</sup>, which found generally satisfactory controls but noted shortcomings of varying significance in policies and procedures. In addition, our *Local Government 2021-22 - Financial Audit Results*<sup>2</sup> report found 20 entities with credit card anomalies.

For a more comprehensive review of purchasing cards, this audit looked beyond the use of credit cards and included other cards such as store cards. In reviewing each entity's controls, we did not apply a 'one size fits all' approach as the diversity of the sector means some very small entities, with few cardholders, may not need the same controls as larger entities with more cardholders.

I encourage the sector to use our better practice guidance in Appendix 1 - it contains considerations to help mitigate the risks associated with the use of purchasing cards and for creating an effective control environment.

I thank the staff at each audited entity for their cooperation and assistance in completing this work, and strongly encourage all local government entities to assess their own policies and management of purchasing cards against the focus areas of this audit.



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<sup>1</sup> Office of the Auditor General, [Controls Over Corporate Credit Cards](#), OAG website, 9 May 2018.

<sup>2</sup> Office of the Auditor General, [Local Government 2021-22 Financial Audit Results](#), OAG website, 23 August 2023.



# Executive summary

## Introduction

The audit assessed whether three regional local government entities (City of Albany, City of Kalgoorlie-Boulder and Shire of Murchison) effectively managed the issue, use and cancellation of purchasing cards. We last audited this topic in the local government sector in 2018<sup>3</sup>.

In conducting the audit, we considered the requirements of the *Local Government Act 1995* (LG Act) and associated regulations, guidelines issued by the Department of Local Government, Sport and Cultural Industries (DLGSC) and our better practice guidance in Appendix 1.

## Background

Purchasing cards represent an approved line of credit and are a well-established part of modern purchasing systems. They include corporate credit cards, store cards<sup>4</sup>, fuel cards and taxi cards. These cards provide entities with a cost effective, convenient and timely way to pay for goods and services of low value.

Local government entities need to have effective controls, appropriate to their size and risk, to prevent and detect inadvertent or deliberate misuse of their purchasing cards and meet their legislated responsibilities around the allocation of finances. This includes being able to demonstrate that purchases meet a business need and meet the expectations of ratepayers in the responsible use of public money. Improper, wasteful or unauthorised purchases that are not identified and resolved can result in financial loss to the entity.

The *Local Government Act 1995* (LG Act) and associated regulations require:

- entities to develop procedures for the payment of accounts to ensure there is effective security for, and properly authorised use of purchasing cards<sup>5</sup>.
- the CEO to keep proper accounts and records in accordance with regulations<sup>6</sup>
- the council to oversee allocation of the local government's finances and resources and determine policies<sup>7</sup>
- entities to provide information about each purchasing card transaction in a payment listing to council and in council minutes to increase transparency, accountability and council oversight of incidental spending<sup>8</sup>.

An effective control environment for purchasing cards should include:

- controls to prevent misuse and errors. These controls establish requirements up-front, and before a purchase is made. Examples include clear policies and procedures,

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<sup>3</sup> Office of the Auditor General, [Controls Over Corporate Credit Cards](#), OAG website, 9 May 2018.

<sup>4</sup> Australian Securities and Investments Commission, [store card](#), Moneysmart.gov.au, n.d., accessed 29 April 2024.

<sup>5</sup> Local Governments (Financial Management) Regulations 1996, regulation 11(1)a.

<sup>6</sup> *Local Government Act 1995* section 6.5(a).

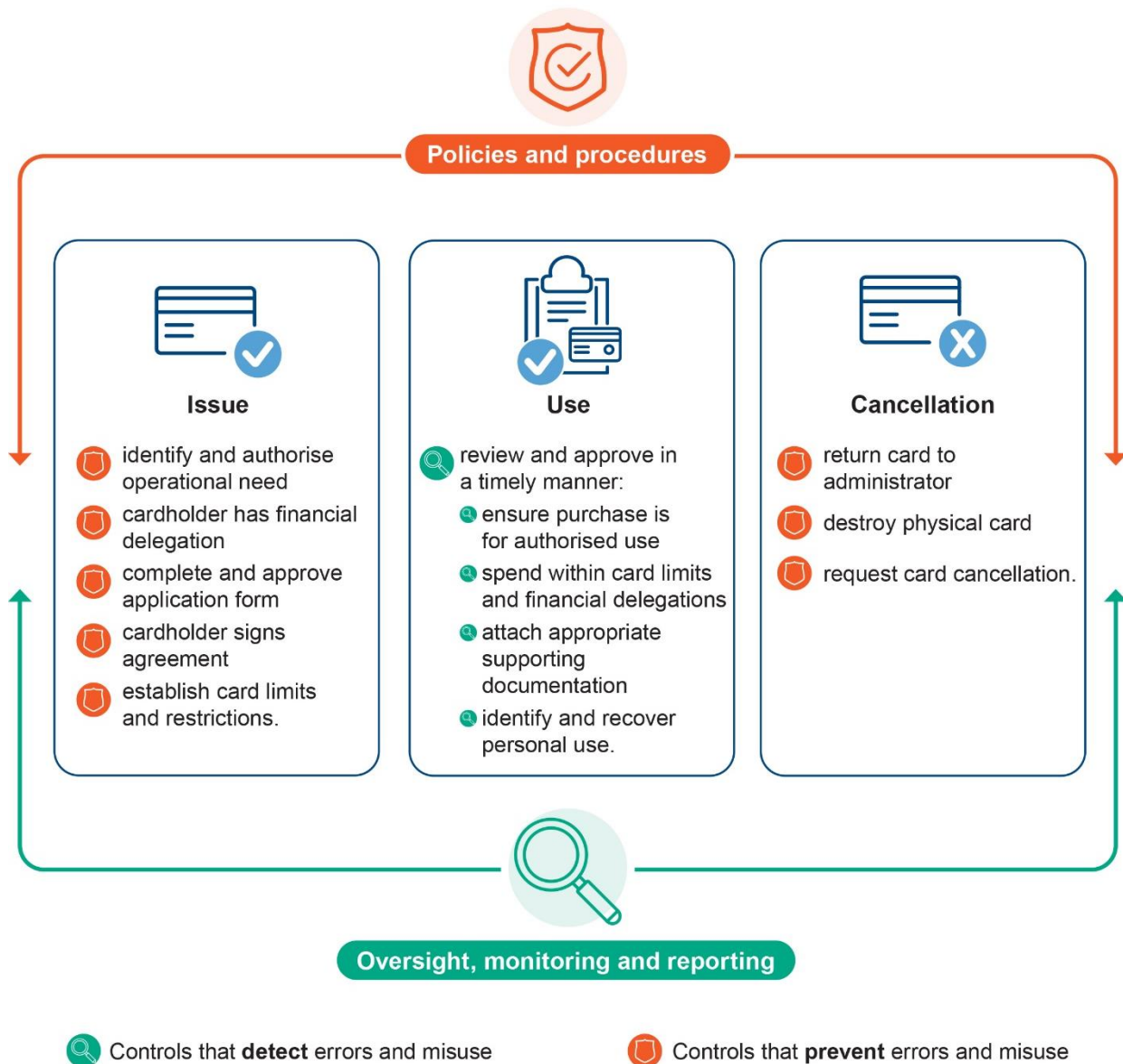
<sup>7</sup> *Local Government Act 1995* sections 2.7(2)(a) and (b).

<sup>8</sup> Local Government (Financial Management) Regulations 1996, regulation 13A took effect from 1 September 2023.

delegations to purchase, preset card limits and appropriate card authorisation and destruction processes.

- controls to detect errors and misuse after a purchase is made. These include processes to review and approve purchases, and the monitoring, reporting and oversight of card use.

Figure 1 provides an overview of the key components of purchasing card management, highlighting the controls we assessed during the audit and our better practice guidance (Appendix 1).



Source: OAG

**Figure 1: Overview of the key components in purchasing card management and controls**

The DLGSC provides the sector with broad guidance on the management of purchasing cards and changes in legislation through accounting and operational guidelines, circulars, alert bulletins and monthly webinars.

## Conclusion

The three audited entities had varying controls in place to manage the issue, use and cancellation of their purchasing cards, but weak implementation and control gaps meant their controls were only partly effective.

Appropriately, the entities only issued cards to staff who had delegations to purchase and cardholders generally provided receipts to support their purchases. These controls help entities to meet their legislated responsibilities and ratepayers' expectations around the responsible use of public money.

However, we found gaps and weaknesses in all areas of purchasing card management that increase the likelihood of cards being inadvertently or deliberately misused, which can cause loss of public money:

- There was inadequate policy guidance on what each entity considered was allowable and reasonable expenditure on such things as travel, accommodation, food and drink. In addition, purchases were not always adequately reviewed and approved in a timely manner.
- The operational need for a purchasing card was not always established, cardholder obligations and responsibilities were not made clear, and cards were not promptly returned and destroyed when no longer needed.
- A lack of oversight and monitoring of control effectiveness meant entities were missing opportunities to identify and promptly address the risks of card misuse and financial loss.

Although our audit found poor management of some important controls relating to purchasing cards, our transaction sample testing did not find clear evidence that cardholders misused public money, in part because the audited entities had no policy guidance on what is allowable and reasonable card use and expenditure.

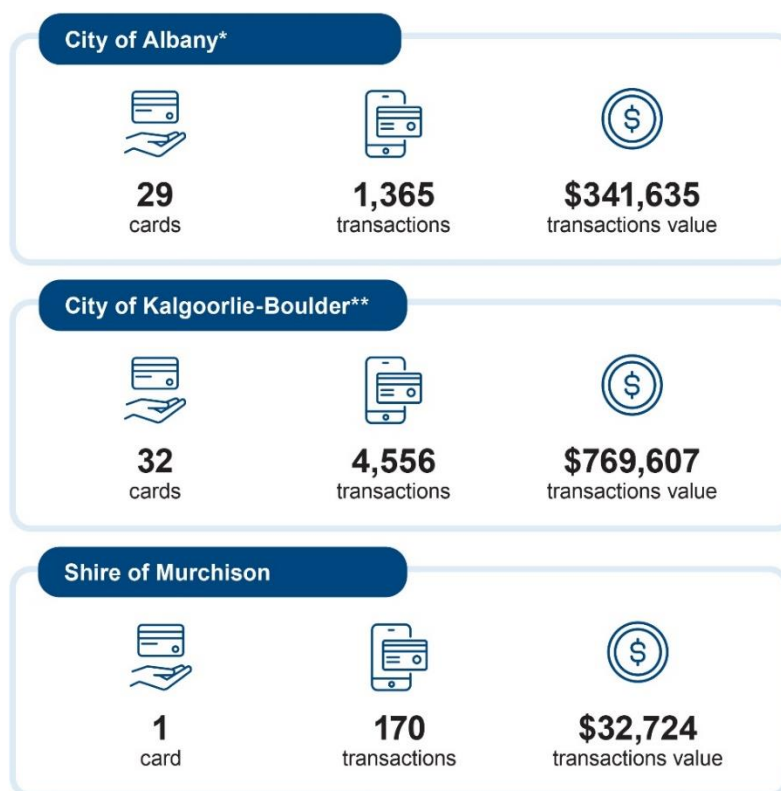
## Findings

### Controls over the use of purchasing cards were partly effective

We found cardholders generally provided receipts for their purchases and had appropriate delegations to purchase. However, we identified control weaknesses of varying significance across the three audited entities which increased the likelihood of unreasonable or unauthorised purchases. Detailed findings were provided to each of the audited entities.

Entities need to develop clear policy guidance on what is allowable and reasonable business expenditure, regardless of the payment mechanism, and improve card expenditure review and approval processes to prevent and detect inadvertent or deliberate misuse.

The three entities varied in the number of cards issued and the number of purchases over the audit period (Figure 2). All were using their purchasing cards to make low value purchases with most transactions being for items less than \$500.



Source: OAG based on information provided by each entity

\* City of Albany: 5 credit cards (1,018 transactions and \$318,543) and 24 store cards (347 transactions and \$23,092).

\*\* City of Kalgoorlie-Boulder: 30 credit cards (4,434 transactions and \$759,181) and 2 store cards (122 transactions and \$10,426).

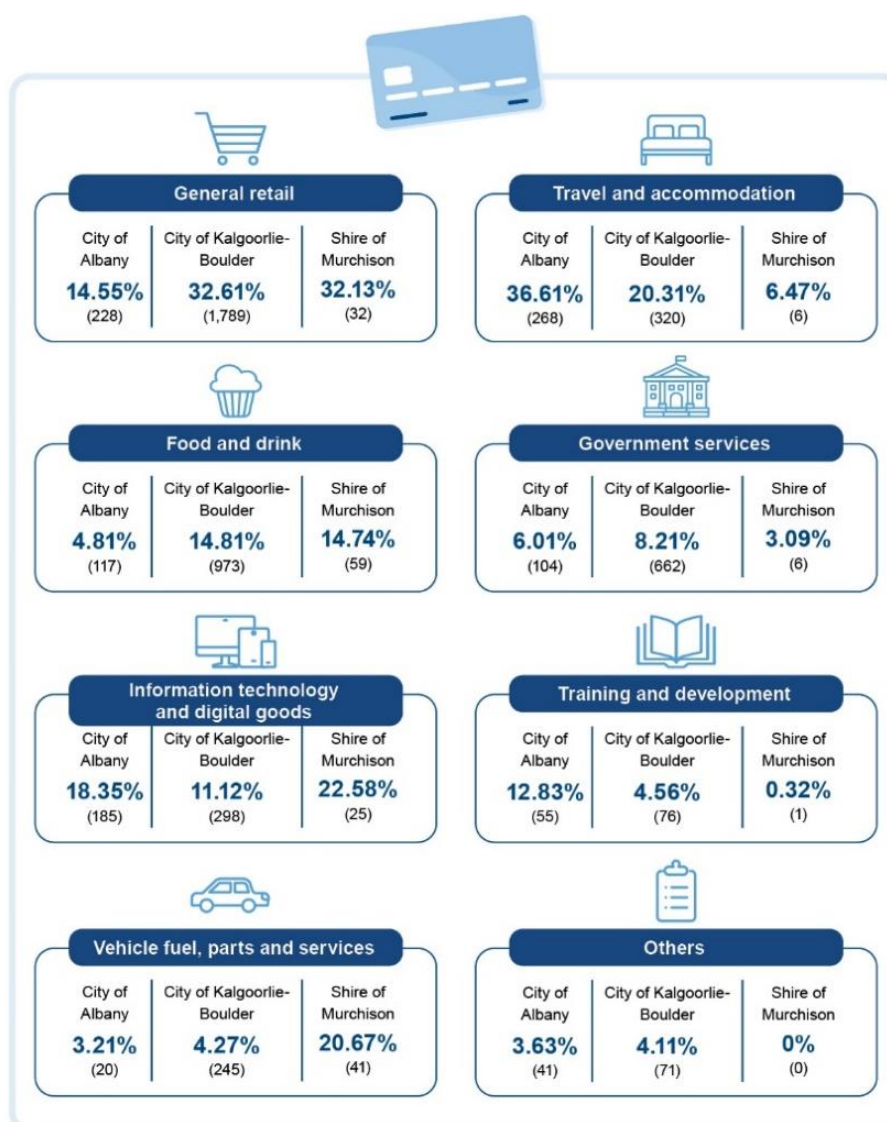
**Figure 2: Key purchasing card statistics for 1 November 2022 to 31 December 2023**

Our analysis found card purchases generally fell into the following categories:

- general retail (e.g. industrial and construction supplies, hardware and equipment, and office supplies and printing)

- travel and accommodation
- food and drink purchases
- government services (e.g. postal services, licenses, registrations and permits)
- information technology and digital goods
- training and development
- vehicle fuel, parts and services
- others.

We further analysed credit card purchases, which made up most of the purchases over the audit period.<sup>9</sup> Figure 3 shows the percentage spend and the number of purchases in each category by entity.



Source: OAG based on credit card information provided by each entity

**Figure 3: Purchase categories for 1 November 2022 to 31 December 2023**

<sup>9</sup> Credit card purchases were allocated using standard merchant information. Store card purchases were not analysed as merchant categories were not readily available.

## Inadequate policy guidance on allowable and reasonable business use

None of the three audited entities had adequate policy guidance for staff on what they considered was allowable and reasonable business expenditure. The entities regularly purchased air fares, accommodation and food and drink<sup>10</sup> (including alcohol) in the absence of any guidance around what was allowable and reasonable.

Policies are an important preventive control designed to assist staff in their decisions prior to them making a purchase and reduce instances of unreasonable and excessive spending. The community has a right to expect that public money will be spent carefully and only for legitimate business purposes. The following case study provides examples of purchases we identified where, in the absence of clear policy guidance, we queried if the spending was reasonable.

### Case study 1: Reasonableness of business use

#### *Air travel*

- One entity spent \$6,302 for its CEO to fly business class interstate. The entity's current policy only allows business class air fares for elected members and there is no policy to guide allowable and reasonable expenditure on staff air travel.

#### *Food and drink*

- An entity purchased alcohol including 24 bottles of wine, 12 bottles of champagne and 15 cartons of beer and cider (\$1,290) and dessert (\$900) for a 'staff celebration'.
- An entity spent \$726 on 'reward and recognition catering' that included \$394 for alcohol and beverages (including five bottles of wine) and \$332 for food.
- An entity paid \$260 for food for a workshop. The approved receipt detailed the purchase of 'raw oysters'.

Supporting documentation did not show who and how many people attended, or the business purpose of the events, so the necessity and reasonableness of expenditure could not be clearly demonstrated.

We also found that none of the entities had documented processes or timeframes to recover money when cards were used to pay for personal items. Corporate purchasing cards should not be used to purchase personal items under any circumstances, even when the cardholder plans to reimburse the entity. If purchases cannot be clearly split into personal and business components at the time of purchase, a better approach is to pay with a personal account and then seek a reimbursement from the entity for the business component.

Entities need to have processes in place to promptly recover the cost of personal purchases to prevent loss of public money.

Case study 2 highlights examples where a purchasing card was used for personal use and an entity failed to promptly recover the money:

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<sup>10</sup> DLGSC Operational Guideline, *Use of Corporate Credit Cards*, requires local government entities to establish strict guidelines for expenditure on entertainment.

### Case study 2: Personal use

An entity used a purchasing card to pay for the air travel of a staff member's partner who was not travelling in a business capacity. There was a considerable lapse of time (118 days after the transaction) before repayment of the partner's travel costs.

### Inadequate review and approval of purchases

The audited entities did not always adequately review and approve purchasing card transactions. We identified:

- none of the entities complied with their own policy and procedures on the review and approval of purchases. For example, staff who were not authorised were approving purchases and purchases were not reviewed within specified timeframes
- CEO purchases approved by a Mayor despite Mayors' having no established administrative authority (City of Albany)
- purchases were approved by a subordinate of the cardholder (City of Kalgoorlie-Boulder).

To ensure expenditure represents allowable and reasonable business use, a direct manager<sup>11</sup> who is aware of the cardholder's role and purchasing requirements should conduct a timely review and approval of the purchases. This reduces the likelihood of unreasonable, inappropriate or unauthorised transactions going undetected.

We also found:

- card sharing while the cardholder was absent from the office (Shire of Murchison). This increases the likelihood of unauthorised or fraudulent purchases and makes it difficult to identify the purchaser
- collection of personal reward scheme points on business purchases that were not identified nor reported as part of the approval process (City of Albany and City of Kalgoorlie-Boulder). A risk exists with reward schemes that cardholders may make purchases through a particular supplier to gain a personal advantage.

The following case study is an example of approval timeframes set in the entity's policy and procedures that were not met.

### Case study 3: Management approval exceeded timeframes

One entity's corporate policy and procedures require all purchases to be approved by a supervisor/manager within specified timeframes.

We found significant delays in the approval of card purchases during our audit.

- 63% were approved outside of the policy timeframes and included:
  - A significant number of purchases that were only approved in December 2023, after we initiated our audit, through three bulk approval actions. Some of these were for purchases spanning back 10 months to March 2023. The bulk approvals suggest very little actual scrutiny of necessity and reasonableness of expenditure.

<sup>11</sup> In the case of the CEO, the chief finance officer (or equivalent) or a suitably senior staff member.

- Significant delays in approval with delays of up to 218 days.

Entities need to promptly review and approve purchases to ensure the expenditure represents allowable and reasonable business use and to detect inadvertent and deliberate misuse.

## Controls over the issue and cancellation of cards were partly effective and require improvement

The three audited entities' management of the issue and cancellation of purchasing cards were only partly effective. New cardholders had the necessary financial delegations to purchase, and purchasing card policies were made available to cardholders. However, we identified the following control weaknesses:

- policies and procedures were missing key elements including an application process to approve eligibility and need for a card, and a cardholder agreement form outlining cardholder legal obligations and responsibilities (Shire of Murchison and City of Kalgoorlie-Boulder)
- no management approval of applications to ensure cards are issued to approved staff and spending limits are based on operational need (City of Albany)
- delays of around one and two months in cancelling cards when staff exit the entity (City of Kalgoorlie-Boulder and City of Albany) which can lead to continued card use and unnecessary card administration fees
- purchasing card registers were missing key information such as an acknowledgement of card return and date of card destruction (City of Albany and City of Kalgoorlie-Boulder).

There is an increased likelihood of inadvertent or deliberate misuse and financial loss to entities when cards are not appropriately issued and cancelled.

## Lack of appropriate oversight of purchasing card controls

Payment listings provided by the three audited entities to their councils generally met legislated requirements. However, we identified instances where the included descriptions were vague or inaccurate and could have better identified the expenditure to facilitate proper scrutiny.

None of the audited entities had appropriate management oversight of purchasing card control effectiveness. The entities informed us card administrators and line managers did not monitor controls to issue, use and cancel cards or report on shortcomings to management. Regular monitoring would assist entities to identify control gaps and address weaknesses in a timely manner. We noted during the audit that the City of Kalgoorlie-Boulder does have some insight into control effectiveness, but this is limited as it only reviews one month's card use by one randomly selected cardholder as part of its monthly executive meetings.

Case study 4 provides examples that illustrate the need for management oversight over control effectiveness. Our better practice guidance in Appendix 1 provides entities with a range of oversight activities to consider.



**Case study 4: Lack of management oversight**

We found the following examples where a lack of management oversight limited entities' ability to identify and improve controls:

- Several 'top-up' payments were made in the monthly card statement period as cardholders exceeded their monthly limits. Regular monitoring and reporting may have identified a need to reassess card limits based on operational need. Transactions may be declined and service delivery disrupted when credit limits are exceeded.
- A staff member had stored their entity's card information in a personal online accommodation account, resulting in personal use. The entity recovered the money but did not consider if control improvements were needed to prevent further occurrences.

We found the audited entities had reviewed their financial management systems and procedures at least every three years as required by legislation<sup>12</sup>. While these included a limited review of purchasing card procedures, they did not provide ongoing confirmation that purchasing card controls are appropriate or effective. Oversight should be enhanced by other regular monitoring and reporting activities.

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<sup>12</sup> Local Government (Financial Management) Regulations 1996, regulation 5(2)c.

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## Recommendations

The three audited entities, as relevant, should:

1. develop and implement clear policy guidance for staff on what is allowable and reasonable business use expenditure on items such as travel and food and drink
2. have suitable controls in place to manage the issue and timely cancellation of purchasing cards
3. review and approve purchasing card transactions in a timely manner
4. keep proper records of the review and approvals of purchasing card transactions and card cancellations
5. include sufficient accurate detail in council papers to allow purchasing card expenditure to be appropriately scrutinised
6. regularly monitor and report on purchasing card controls to allow management to oversee usage and control effectiveness. The results of reviews should be documented and retained.

In accordance with section 7.12A of the *Local Government Act 1995*, the three audited local government entities should prepare a report on any matters identified as significant to them for submission to the Minister for Local Government within three months of this report being tabled in Parliament, and within 14 days of submission publish it on their website.

## Response from the City of Albany

The City of Albany accepts the recommendations and learnings contained in the performance audit. While the audit did not find clear evidence that cardholders misused public money, the City recognises the importance of continuous improvement in the management of its purchasing cards. The City has begun addressing the audit's findings.

## Response from the City of Kalgoorlie-Boulder

The City of Kalgoorlie-Boulder has already begun reviewing and updating internal control processes and updated staff training in the use of cards within the City to ensure that processes and systems for the management cards are in line with best practice.

## Response from the Shire of Murchison

The audit review of credit card use and overall recommendations for administrative improvements is welcome and as indicated in the Murchison Shire's responses will be actioned as a matter of course.

In context the Shire is very small and has only one credit card which has historically been assigned to the Chief Executive Officer when he or she commences employment. Whilst there has been no documentation on the actual purpose and operational use, the card has always been predominately used as a corporate card, which the CEO is responsible for, rather than for the CEO's work-related use. This form of usage is essential operationally as from time to time some organisations will only accept credit card payments rather than through the formal purchasing order / account payable system.

Whilst on the surface allowing others to use the credit card increases the risk of unauthorised or fraudulent transactions, the smallness of the organisation with only three in the administrative area other than the CEO, and normal checks and posting of transactions means that there is minimal risk of this actually occurring. Future improved documented policy and procedures will assist in demonstrating this situation.

Council's current policy and operational practices also requires credit card transactions to be authorised by the Chief Executive Officer as card holder and checked by an independent Financial Accountant. Details of credit card transactions are included in the list of payments presented to Council for each Council Meeting and as required included the resolution whereby Council have accepted the payment listing. Councillors are well experienced and familiar with the operations of the Shire, which by and large are relatively straight forward, and regularly ask questions and seek clarification.

## Audit focus and scope

The focus of this audit was to assess whether three regional local government entities effectively manage the issue, use and cancellation of purchasing cards.

Our criteria were:

- Are there effective controls over the issue and cancellation of purchasing cards?
- Are there effective controls over the use of purchasing cards?

The City of Albany, City of Kalgoorlie-Boulder and Shire of Murchison were included in the audit.

The audit reviewed the issue, use and cancellation practices of each entity over the period of 1 November 2022 to 31 December 2023.



We visited each entity and assessed their policies and procedures against legislative requirements, DLGSC operational guidelines and our better practice guidance in Appendix 1. At each entity, we also assessed a sample of CEO purchasing card transactions and whether there was adequate independent review of CEO use.

This was an independent audit, conducted under section 18 of the *Auditor General Act 2006*, in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other ethical requirements related to assurance engagements. Performance audits focus primarily on the effective management of entity programs and activities including compliance with legislative and other requirements. The approximate cost of undertaking the audit and reporting was \$300,000.



## Appendix 1: Better practice guidance

Local government entities need to have purchasing card policies and procedures that are up to date and accessible to staff. These policies and procedures should include key controls for the issue, use and cancellation of purchasing cards and be regularly reviewed.

The table lists requirements for effective purchasing card management, which guided our audit. It is not intended to be an exhaustive list.

Purchasing card management	Outcome	What we expect to see
 <p><b>Issue</b></p>	<p>Cardholder eligibility and operational need is established, an application is appropriately approved and the cardholder is made aware of their legal obligations and responsibilities</p>	<ul style="list-style-type: none"> <li>• cardholder has appropriate financial delegation to incur expenditure. Delegations should also be set for certain types of expenditure</li> <li>• an application form is appropriately approved</li> <li>• card limits are based on cardholders need</li> <li>• cardholder and their manager signs agreement that clearly sets out legal obligations and responsibilities and the purposes for which a card may or may not be used</li> <li>• cardholder acknowledges that they understand and will comply with purchasing card policy and procedures</li> <li>• cardholder receives training on procedures and requirements</li> <li>• card administrator updates the purchasing card register with key cardholder information</li> </ul>
 <p><b>Use</b></p>	<p>Purchases are for business use, and are properly reviewed and approved in accordance with the purchasing card policies and procedures</p>	<ul style="list-style-type: none"> <li>• purchases should be within the transaction and card limits. They should not be split to circumvent these limits</li> <li>• entity sets out appropriate delegations for approval of expenditure</li> <li>• timely review and approval of transactions:                         <ul style="list-style-type: none"> <li>○ <u>cardholder</u>: reviews statements to ensure accuracy of reported purchases, attaches adequate supporting documentation, codes purchases and provides sufficient details to identify the purchase</li> <li>○ <u>cardholder's direct manager</u><sup>13</sup>: reviews and approves purchases to ensure appropriate business use, consistency with cardholder's role and responsibilities, and compliance with policies and guidelines</li> </ul> </li> <li>• review and approval processes have adequate documentation</li> <li>• processes to repay any personal purchases</li> <li>• guidance for purchases where cards are not physically present such as online telephone and internet purchases</li> </ul>

<sup>13</sup> In the case of the CEO, the chief finance officer (or equivalent) or a suitably senior staff member.

Purchasing card management	Outcome	What we expect to see
		<ul style="list-style-type: none"> <li>• treatment of reward schemes and loyalty programs as purchasing cards should not be used to gain a personal benefit</li> <li>• procedures for when a cardholder is on leave to ensure card security</li> </ul>
 <p><b>Cancellation</b></p>	<p>Timely cancellation of purchasing cards to prevent unauthorised purchases and unnecessary card fees</p>	<ul style="list-style-type: none"> <li>• immediate cancellation once a cardholder exits or has a change in employment requirements</li> <li>• cardholder returns card to the administrator</li> <li>• cards should be destroyed, and evidence of destruction recorded</li> <li>• administrator enters cancellation and destruction information in cardholder register</li> </ul>
 <p><b>Oversight</b></p>	<p>Regular monitoring and reporting to provide management with insights into use and the effectiveness of controls and to address shortcomings in a timely manner</p> <p>Evidence of reviews should be retained</p>	<p>Examples of monitoring and reporting include:</p> <ul style="list-style-type: none"> <li>• Continuously:             <ul style="list-style-type: none"> <li>○ disclose information about each purchasing card transaction in a payments listing to council and in council minutes</li> <li>○ record instances of personal use, inappropriate use, and disputed and fraudulent transactions. Take corrective action when required</li> <li>○ assess the timeliness of reviews and approvals by cardholders and managers, and act when timeframes are not met</li> <li>○ provide reports to managers on usage within their areas to assess operational need</li> <li>○ reinforce requirements to cardholders and approvers</li> </ul> </li> <li>• Annually:             <ul style="list-style-type: none"> <li>○ identify inactive or under-used cards that may require cancellation</li> <li>○ review appropriateness of transaction and card limits</li> <li>○ audit and update purchasing card registers</li> <li>○ review relevance and effectiveness of policies and procedures as part of an annual risk assessment</li> </ul> </li> <li>• Periodically:             <ul style="list-style-type: none"> <li>○ sample test transactions for appropriate business use and compliance with policies and procedures</li> <li>○ analyse usage and supplier patterns to inform procurement practices</li> <li>○ review purchasing card policy against operational guidelines and better practice principles</li> </ul> </li> </ul>

Purchasing card management	Outcome	What we expect to see
		<ul style="list-style-type: none"> <li>○ review the appropriateness and effectiveness of financial management systems and procedures as required by legislation</li> </ul>

Source: OAG

## Auditor General's 2023-24 reports

Number	Title	Date tabled
19	Local Government Management of Purchasing Cards	12 June 2024
18	Local Government 2022-23 – Financial Audit Results	6 June 2024
17	Local Government IT Disaster Recovery Planning	31 May 2024
16	Local Government 2022-23 – Information Systems Audit Results	27 May 2024
15	State Government Advertising	15 May 2024
14	State Government 2022-23 – Information Systems Audit	12 April 2024
13	Provision of Supplementary Information to the Standing Committee on Estimates and Financial Operations – Opinions on Ministerial Notifications	5 April 2024
12	Digital Identity and Access Management – Better Practice Guide	28 March 2024
11	Funding for Community Sport and Recreation	21 March 2024
10	State Government 2022-23 – Financial Audit Results	20 December 2023
9	Implementation of the Essential Eight Cyber Security Controls	6 December 2023
8	Electricity Generation and Retail Corporation (Synergy)	8 November 2023
7	Management of the Road Trauma Trust Account	17 October 2023
6	2023 Transparency Report: Major Projects	2 October 2023
5	Triple Zero	22 September 2023
4	Staff Exit Controls for Government Trading Enterprises	13 September 2023
3	Local Government 2021-22 – Financial Audit Results	23 August 2023
2	Electricity Generation and Retail Corporation (Synergy)	9 August 2023
1	Requisitioning of COVID-19 Hotels	9 August 2023



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Office of the Auditor General  
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Our Ref: F23/253

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Dear Mr Boehm

### **PERFORMANCE AUDIT ON LOCAL GOVERNMENT MANAGEMENT OF PURCHASING CARDS**

As you would be aware, the Auditor General has been undertaking this performance audit at the Shire of Murchison.

Attached for your review and comment is the Emerging Findings Letter which contains the detailed findings from the audit, and the Shire's management response from Lisa Keen, Executive Manager/ Deputy Chief Executive Officer.

Our practice is to use the Emerging Findings Letter to prepare the *Summary of Findings* report which the Auditor General will table in Parliament. The audit team will be in contact with the Shire to discuss our procedural fairness processes and timeframes as we prepare the report for Parliament. At this stage we plan to table the report in Parliament by 30 June 2024.

Should you wish to make any comments on the attached Emerging Findings Letter, I would appreciate if we could receive these by 3 May 2024. If you have any questions, please contact me on 6557 7630 or Justine Mezzatesta, Director, on 6557 7751.

Yours sincerely

A handwritten signature in cursive script that reads 'Aloha Morrissey'.

Aloha Morrissey  
Assistant Auditor General  
Information Systems and Performance Audit  
29 April 2024

Attach

*Shire of Murchison – April 2024*  
**Confidential – Not For Publication**

## Emerging Findings Letter – Local Government Management of Purchasing Cards

The focus of this audit was to assess whether Local Government entities effectively manage the issue, use and cancellation of purchasing cards. Our criteria were:

1. Are there effective controls over the issue and cancellation of purchasing cards?
2. Are there effective controls over the use of purchasing cards?

### Summary of our findings

We examined the Shire of Murchison's issue, use and cancellation of purchasing cards including assessing its policies, processes and procedures and found the management of purchasing cards could be improved.

We identified two significant and three minor issues.

The significant issues were:

1. Policies and procedures missing key elements.
2. Purchasing card agreements not signed and their issue was not approved.

The moderate issues were:

3. Lack of supporting policies to guide staff on appropriate expenditure.
4. Sharing credit card details.
5. Inadequate review and approval of expenditure.

### How the Emerging Findings Letter process works

This Emerging Findings Letter is intended to communicate preliminary audit findings to your entity. It serves as the basis of any report to Parliament. The process involves firstly issuing a Draft Emerging Findings Letter to the nominated liaison officer for their comments, correction of facts, clarification or expansion of context and endorsement or adjustment to any proposed solutions. The Emerging Findings Letter is then issued to the CEO of the agency for information and any further comments.

### Definition of terms

Emerging Findings Letter items are classified according to our assessment of their importance. Any, or all of these issues may warrant inclusion in a report to Parliament, although the more serious the finding the more likely it is to be included.

- **Significant** findings are those that in the opinion of the audit team should be addressed promptly. This includes matters that involve significant non-compliance with legislation and/or policy.
- **Moderate** findings include those matters which, while not necessarily individually significant, are of sufficient concern to warrant action being taken by the agency as soon as practicable.
- **Minor** findings include those where the finding is not of primary concern but, in the interests of the entity, still warrant action being taken to remedy the matter. Examples might include improvements required to the recording of information, or other relatively minor internal control deficiencies.

*Shire of Murchison – April 2024*  
**Confidential – Not For Publication**

## Findings

### Significant Issues

#### 1. Policies and procedures are missing key elements

##### Finding:

We found the Shire does not have adequate policy or procedures covering issue, usage and cancellation of purchasing cards. Policies and procedures should consider the size of the Shire and the number of current cardholders (1). As a minimum requirement, purchasing card policies and procedures should outline:

- roles and responsibilities for use, management and administration
- requirements for issue, usage and cancellation
- credit limits and purchase restrictions
- requirements for transaction acquittal, reconciliation and approval
- personal expenditure processes.

**Local Government Act 1995 (LG Act) and associated regulations requires local governments to develop procedures for the authorisations and payment of accounts to ensure that there is effective security and appropriate authorisations in place for the use of credit cards.**

**DLGSC operational guidelines provide key elements for inclusion in policies and procedures for controlling the use of purchasing cards.**

**OAG better practice principles provide guidance on purchasing card policies and procedures including processes to discharge any debt for personal expenditure.**

##### Implication:

When cardholders, approvers and administrators are not aware of their responsibilities around the issue, use and cancellation of purchasing cards, there is the potential for misappropriation of funds and financial loss.

##### Recommendation:

The Shire should develop and implement appropriate policies and procedures on the issue, usage and cancellation of purchasing cards.

Purchasing card policies and procedures should be made accessible to all cardholders.

##### Entity comment:

Council has only one credit card which has been allocated historically to the CEO when he or she commences employment. Brief policy regarding approval of transactions is in place but needs to be improved and will be expanded upon as recommended.

##### Responsible Person:

Chief Executive Officer, Executive Manager DCEO.

**Completion Date:** June 2024

*Shire of Murchison – April 2024*  
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**2. Purchasing card agreements are not signed and issue was not approved****Finding:**

We found there is no cardholder application process or cardholder agreement form to ensure purchasing cards are issued based on operational needs and cardholders understand their responsibilities.

**Implication:**

When cardholders are not aware of their responsibilities and legal obligations, there is the potential for financial loss.

**Recommendation:**

The Shire should implement a purchasing card application process to ensure:

- operational need for a purchasing card is established
- card limits are based on cardholders need
- the cardholder has appropriate delegation and purchasing authority to incur expenditure on behalf of the Shire
- the issue of a purchasing card is approved by an appropriate authority.

The Shire should also develop an agreement for cardholders to ensure they understand their legal obligations and responsibilities, and limitations imposed on the use of a purchasing card.

**Entity comment:**

Council has only one credit card which has been allocated historically to the CEO when they commence employment. As such, historically, there has been no application process. The general obligations under legislation and the CEO's contract would have historically been seen as sufficient. Improvements as recommended will be implemented.

**Responsible Person:**

Chief Executive Officer, Executive Manager DCEO.

**Completion Date:**

June 2024

*Shire of Murchison – April 2024*  
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**Moderate Issues****3. Lack of supporting policies to guide staff on appropriate expenditure****Finding:**

We found two instances where the credit card was used to buy staff rewards and gifts. There are no supporting policies to guide staff, managers and reviewers on the appropriateness of expenditure.

**LG Act and associated regulations require the council to oversee the allocation of the local government's finances and resources and to determine the policies.**

**Implication:**

Without proper guidance, there is an increased likelihood of inappropriate use (including personal use) or excessive spending on items.

**Recommendation:**

The Shire should set clear requirements and expectations around staff reward, recognition and gift purchases.

**Entity comment:**

The two instances of the credit card being used to buy staff rewards were initiated and authorised by the CEO, as part of the traditional end of year small thank you to all staff. This was introduced as an alternative to purchasing particular gifts but as per previous practices this was not documented in writing. This aspect will be addressed by an appropriate policy and to document practices. Wide scale use of rewards has not ever been practiced and is not intended into the future.

**Responsible Person:**

Chief Executive Officer, Executive Manager DCEO.

**Completion Date:**

June 2024

*Shire of Murchison – April 2024*  
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#### **4. Sharing credit card details**

**Finding:**

We found the purchasing card was used by staff who were not the authorised delegates or cardholder, while the cardholder was on leave. The Shire informed us that due to the remoteness of the region, the cardholder keeps possession of the card to make purchases while in major towns/cities but provides office staff the credit card number to make purchases in their absence.

**Implication:**

Allowing others to use the credit card increases the risk of unauthorised or fraudulent transactions.

**Recommendation:**

The Shire should establish appropriate purchasing card arrangements during staff absence to avoid card sharing and unauthorised use.

**Entity comment:**

Council has only one credit card which has been allocated historically to the CEO when they commence employment. While there has been no documentation on the actual purpose and operational use, the card has always been predominately used as a corporate card, which the CEO is responsible for rather than for the CEO's personal work-related use. This form of usage is essential operationally as from time to time some organisations will only accept credit card payments rather than through the formal purchasing order / account payable system.

While on the surface allowing others to use the credit card increases the risk of unauthorised or fraudulent transactions, the smallness of the organisation and normal checks and posting of transactions means that there is minimal risk of this actually occurring.

The recommendation that the Shire should establish appropriate purchasing card arrangements during staff absences to avoid card sharing is to be reviewed and arrangements put in place to have the card used as a corporate credit card which by its very nature will have authorisation mechanisms in place, with the card staying in the Shire Office. In these circumstances the CEO will not have personal use for work related purchases. How this is best implemented when usually a card is issued to an individual has yet to be determined. Policies and procedures will be reviewed and implemented to ensure staff delegated authority to use the corporate credit card comply with the corporate credit card policy.

**Responsible Person:**

Chief Executive Officer, Executive Manager DCEO.

**Completion Date:**

July 2024

*Shire of Murchison – April 2024*  
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**5. Inadequate review and approval of expenditure****Finding:**

We found six instances where the Finance Manager did not sign and date the monthly credit card reconciliation or statement as required by the Shire's Finance Operations policy (December 2022, and February, April, May June and November 2023).

We also found two instances where the cardholder did not acknowledge the review of the monthly card statement (December 2022 and February 2023).

**The Shire of Murchison Finance Operations policy requires the Finance Manager to sign off on the credit card reconciliation each month.**

**DLGSC Guidelines require adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval.**

**Implication:**

When credit card statements are not appropriately reviewed, unauthorised transactions, may not be identified and resolved in a timely manner, resulting in financial loss.

**Recommendation:**

The Shire should ensure the cardholder review, acknowledge and date monthly card statements. In addition, the monthly purchasing card reconciliation should be reviewed and signed off by the Finance Manager in accordance with the Finance Operations policy.

**Entity comment:**

Concur

**Responsible Person:**

Chief Executive Officer

**Completion Date:**

Implemented





Policy

27 June 2024

## 3.1 Staff Matters

### Well-being

Civic Leadership

### Objectives

To ensure staff are engaged and managed in a manner appropriate to the local environment and remote location in which the Murchison Shire operates through appropriate employment arrangements.

### Details

#### **Senior Staff**

In accordance with Section 5.37(1) of the *Local Government Act 1995* Senior Employee shall be the Chief Executive Officer.

#### **Recruitment**

##### *Relocation Expenses*

Each case will be individually assessed by the Chief Executive Officer and an arrangement between the Chief Executive Officer and the employee arranged and confirmed in writing with the total value of the contribution towards relocation costs not exceeding \$000.\$5,000.

~~Note — Council reserves the right to make alternative arrangements for contracted employees.~~

##### *Interview Expenses*

Council will reimburse travel costs for applicants attending interviews subject to prior agreement with candidates and on the following basis:-

- ~ If the applicant is traveling by car, the vehicle to be fueled at the Murchison Roadhouse and charged to the Shire.
- ~ If air travel is appropriate and available an amount equal to a single economy return class airfare from the current place of residence of the applicant to Perth.
- ~ If any other form of travel is appropriate the actual costs to and from the place of residence of the applicant to the place of interview.

## ***Employment Matters***

### ***Long Service Leave***

The Chief Executive Officer may authorise the taking of long service leave by employees is not more than three consecutive periods subject to the leave being taken in full by a period of two (2) years from the due date of leave falling due.

As a general rule however, leave is to be taken as soon as practicable after it falls due.

### ***Annual Leave***

Annual Leave is to be taken in the year in which it becomes due unless approval is granted by the Chief Executive Officer for deferral.

As a general rule, employees **other than the Chief Executive Officer and Works Manager** shall not be permitted to accrue more than eight (8) weeks annual leave.

### ***Rostered Days Off***

Where employees are accruing Rostered Days Off they shall be taken at a time suitable to the Supervising Officer and the Staff Member as soon as practicable after they fall due.

### ***Conditions of Employment***

Apart from contract staff, all staff are employed under an individual contract governed by the relevant award.

A staff performance appraisal and review of conditions of employment shall be carried out at least annually or at other times associated with changes in a person's job specification. Any applicable changes to conditions shall apply from either the anniversary date or at the date of change in a person's job specification.

### ***Council Superannuation Co-contribution***

Council will contribute the statutory Superannuation Guarantee amount to a fund of the employee's choice and will match any voluntary contribution by the employee up to a maximum of 5% of their gross wage or salary. Variation to this policy shall be considered during review of conditions of employment.

### ***Staff - Other Employment***

Approval for staff to engage in remunerated positions outside of normal working hours is subject to there being no conflict of duties and approval by the Chief Executive Officer.

### ***Medical Examinations***

All permanent employees are required to agree to a medical examination by a Medical Practitioner whose appointment will be paid for by the Shire of Murchison. Results will be confidential to the immediate Supervisor and the Chief Executive Officer. A copy will be retained in the employee's personal file.

### ***Probationary Period***

All positions within the Shires permanent workforce will be subject to a probationary period of six (6) months.

### *Paid Leave for Voluntary Service*

All staff who are bona fide members of volunteer emergency service groups, such as Fire Brigade, State Emergency Services, Ambulance etc who are required for emergency service to those groups during working hours shall be released and paid for time absent by Council up to the total of ordinary time usually worked during that day or the period of the emergency but will not include time in excess of ordinary working hours, weekend or public holidays.

For the purpose of this policy ordinary time shall be the time ordinarily worked on the days the employee may be absent including any standard overtime arrangements.

### **Uniforms/Protective Clothing**

#### *Works Staff*

To be issued with one (1) winter issue of clothing per year. The issue shall consist of five pairs of trousers and five hi visibility cotton drill long sleeve shirts.

All other necessary safety and protective gear is to be supplied as needed e.g. boots, safety glasses, vests, hats, water bottles, sun screen etc. Windcheaters and jackets will be provided every two (2) years or (4) years respectively. Fair wear and tear replacement of all items will be made.

#### *Office Staff*

Office Staff will be issued with their choice of corporate uniforms as follows:-

On completion of a probationary period – subsidy to the value of \$250 per person.

Subsequent Issues - \$500 per year.

Permanent Part-time staff shall be subsidised on a pro-rata basis applicable to the amount of hours worked. Casual staff shall not be subsidised.

As part of the Shires customer service focus, employees are **encouraged required** to wear the corporate uniforms at all times and to provide an image suitable to the Shire.

### **Smoking in the Workplace**

To protect the health of work colleagues the council has a smoking policy that limits smoking in enclosed areas such as vehicles, buildings and workshops when other persons who do not smoke are present. Smoking is prohibited where explosives and flammables are stored, handled or disposed of.

### **Staff Training**

#### *Conference and Seminar Attendance*

Requests for authority for the Chief Executive Officer to attend Conferences and Seminars outside of that classified as Staff Training shall wherever practicable be brought before Council for consideration.

Council shall by resolution authorise the attendance of these Conferences and Seminars as considered appropriate.

Where authority is granted under this clause for the attendance of Staff or staff contracts include authorisation for attendance under certain contracts conditions, all reasonable expenses relating to accommodation, nomination, meals and other reasonable expenses incurred will be met by Council subject to presentation of documented evidence for the expense.

Where it is considered appropriate for a staff member to be accompanied by another person when attending any function where attendance has been authorised by Council, Council will meet the expenses applicable to that person with approval of full Council.

### *Staff Training - Costs applicable*

Where staff request authority to attend staff training approval may be granted by the Chief Executive Officer having regard to the following:-

- The relevance of the training to the staff member,
- The cost of the training,
- Budget allocation for training provided,
- Obligations of performance appraisals completed,
- Any other relevant factors

Where training is approved Council will pay all reasonable expenses relating to costs of the training, accommodation, travel, meals and other reasonable expenses incurred subject to presentation of documentary evidence of the expense.

Whilst Council accepts its obligations to train its staff to satisfactory levels to enhance their performance it shall be incumbent on the staff to recognise that training provides personal rewards and they should accept that overtime will not be paid for out of hours training attendance and travel and every effort shall be made to reduce costs associated with training in all areas of expense if possible.

### **Plant & Equipment**

#### *Use of Equipment by Employees*

Plant Equipment is not to be made available for use by employees for works on Council properties without the written consent of the Chief Executive Officer. Minor items such as lawn mowers, edger's, cement mixers etc may be used with approval of the Chief Executive Officer subject to the use being to maintain Council properties.

### **Staff Rewards & Recognition**

The Chief Executive Officer is authorised to exercise their discretion to purchase items or issue gift vouchers for staff reward and recognition, including Christmas and staff terminations up to a value of \$100. Per employee. *(Comment. Note amounts up to \$300 are FBT exempt. General practice has been to apply a \$50 gift card at the end of the year)*

### **Previous**

2005 Policy Manual - 25 November 2020 Update



## 4.1 Finance Operations

### Well-being

Civic Leadership

### Objectives

To institute appropriate administrative arrangements for the overall financial management of the Shire.

### Details

#### **Reserve Accounts**

All of the Shire's Financial Reserves are to be operated in accordance with *the Local Government (Financial Management) Regulations 1996*, which amongst other things requires the Shire to identify the reserve with clear purpose, report on the financial activities of each reserve through Annual Financial Report and also publicly advertise any intention to change or modify the purpose of any reserve **where that change or modification is not part of the approved budget.**

Council **regularly reviews its Reserve Accounts and** makes regular transfers of funds as part of its budget process.

#### **Staff Leave Reserve**

A Staff leave Reserve shall be maintained. The purpose of the account is to pay Staff Leave entitlements to Councils current employees and for claims of past employees (Long service leave only) who have transferred to other Councils with the reserve holding hold sufficient funds to meet Councils Annual and Long Service Leave Liability at any given time.

#### **Plant Reserve**

~~A Plant Reserve Account shall be maintained. Monies held in the account are to be used to assist in funding the replacement or major repair of plant items.~~ **(Comment. Not specifically required to be identified as all Reserves have dedicated purposes)**

#### **Interest on Reserve Accounts**

Interest earned on reserve funds shall be applied to the reserve from where the interest was earned.

### **Operation of Bank Accounts**

- (a) Two signatories, authorised with the bank, are to sign off on all payments, whether the payment is electronic or by cheque;
- (b) Refer Credit Card Operation**
- (c) Changes to bank accounts (except Term Deposits held at the same bank that holds the Shire's Municipal Funds) such as opening or closing bank accounts; adding new signatories; changing the number of signatories on a bank account are to be authorised by the Chief Executive Officer and the President. (Comment. The Bank requires the CEO as the sole person with authorisation status.)**
- (d) The CEO and DCEO may manage the Shire's investments by way of Term Deposit held at the same bank that holds the Shire's Municipal Funds. This includes the opening and closing of term deposit accounts.

### **Credit Card Operation**

- (a) The Shire shall have one (1) credit card which shall be the responsibility of the Chief Executive Officer to manage.
- (b) The purpose of the credit card is to be used as a corporate credit card for work related purposes as some organisations will only accept credit card payments rather than through the [accounts payable system. Any work-related expenses by staff shall be via the normal reimbursement system.
- (c) Payments made with the CEO Credit Card are to be accompanied by supporting source documentation, including Tax Invoices. Details are to be revealed in the monthly payment list to Council and the Finance Manager is to sign off on the reconciliation each month.

### **Unpaid Rates – Procedure for Collection**

The following procedure shall apply for the collection of unpaid rates:

- ~ Final notices to be issued within six (6) month of the expiration of the discount period.
- ~ Advice of legal action to be taken for recovery will be forwarded to outstanding debtors for rates once rates have been outstanding for more than 12 months.
- ~ Legal action to be commenced following the imposition of penalties for outstanding rates.

### **Investments**

Investments of Shire funds shall only be permitted from the bank that holds the Shire's Municipal Funds or WA Treasury.

### **Previous**

2005 Policy Manual - 25 November 2020 Update  
12 December 2021