

Director of Local
Government

Report to the
Glamorgan-Spring Bay
Council

December 2015

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1. Introduction

In the period April to June 2015 I received, in my capacity as the Director of Local Government (the Director), a number of complaints regarding the governance and operational performance of the Glamorgan-Spring Bay Council (the Council) as well as number of specific complaints targeted at individual councillors and staff.

Given the nature of the complaints I have undertaken an investigation into the Council. The investigation involved interviews with the elected members and senior staff of the Council in conjunction with an assessment of a number of audio recordings of Council meetings. At the same time, an independent audit of the Council's financial practices, policies, procedures, delegations, procurement, human resource management and information technology management was undertaken by Deloitte Touche Tohmatsu (Deloitte) with support provided through the office of the Auditor-General. The Deloitte report was commissioned by the Audit Panel of the Council.

All investigations conducted by the Director under the *Local Government Act 1993* (the Act) are conducted on a confidential basis. This approach was undertaken in this investigation to reassure councillors and council staff that were interviewed that matters would be treated confidentially and would not be attributed to any particular individual. The results of my investigation of complaints against individual councillors and staff have therefore been provided confidentially to the respective parties.

This report considers the governance and operational issues considered during my investigation.

Broadly speaking, I have determined that there are four key areas that the Council needs to address in terms of governance and operational performance, namely:

1. conduct and agenda of Council meetings;
2. adherence to Council policies;
3. financial systems and processes; and
4. human resource management.

I have consulted with the Council on a draft report before finalisation and have incorporated the Council's views into the recommendations. I welcome the Council on accepting my report and its recommendations in the spirit in which it did. It is an indication of the Council's willingness to improve its processes and practices and to ensure it has a solid governance framework from which to operate.

2. Overview

I would like to stress that the findings from my investigation and those of the internal audit conducted by Deloitte, should be viewed by the Council, and the broader community it serves, as an opportunity to acknowledge areas where action needs to be taken and to move forward. The results of my investigation highlight that the Council is facing similar problems and pressures that face many small rural councils across Tasmania and interstate. Increasing

demands and expectations, greater compliance requirements and increased costs in a time of financial constraint, are all making the complex and difficult task of running a council that much more difficult.

From an operational perspective, the Council is performing reasonably well. The Council's operational performance, as measured by the financial and asset sustainability indicators used by the Auditor-General and the Department of Premier and Cabinet's Local Government Division (LGD) indicate that the Council is performing as well, if not marginally better than a number of other small rural councils in Tasmania. Furthermore, staff interviews indicate considerable support for the General Manager (GM) and, setting aside governance issues, the operational arm of the Council is cohesive, focussed and professional.

Under the Act, the GM is responsible for the day-to-day operations of the Council. With regard to the Council, the workload of the GM is exacerbated by the lack of a senior officer to manage the Council's financial affairs, including payroll, receipting and approval processes, banking, and audit preparation. In most councils these roles are largely undertaken by a Chief Financial Officer. While both the Council and the GM have resisted employing a Chief Financial Officer for budget reasons, this situation is unsustainable in the long term. It is both my view and that of the independent chair of the Audit Panel that many of the process issues identified for action in the Deloitte report are unlikely to have arisen if there was a senior financial manager employed within the Council.

It is crucial that the GM be relieved of his current financial administrative burden, enabling him to focus on the more expansive roles and responsibilities of the GM position.

From a governance perspective, Councillor and staff submissions stressed that Council meetings are, at times, both unproductive and lacking focus. Audio recordings of Council meetings confirm these perceptions.

The forensic questioning of staff, often on budgetary matters, is inefficient and should be dealt with outside the confines of normal Council meetings.

It is critical that Councillors are updated on progress and remain informed. An analysis of reports to the Council indicates that some reports have varied little from those provided at previous Council meetings. To some extent this has been a contributing factor to the questioning of staff. These matters are explored in more depth below.

3. Council Meetings

It would appear that there is not always the free flow of information and policy debate necessary for good decision making at Council meetings. Too much leeway is allowed for Councillors to ask detailed and, in some cases, irrelevant operational questions. While it could be argued that this promotes transparency and accountability, when it stymies debate and limits contributions from other Councillors, it hampers the productivity and effectiveness of Council meetings.

This is not to say that legitimate concerns have not, and should not, be raised. However, there are occasions where discussions and questions at Council meetings descend into matters that may be considered trivial in nature, unrelated to the current agenda item or, in some cases, inappropriate. Moreover, these matters could have been addressed by more informative and up-to-date reporting to the Council, or Councillors seeking information outside of Council meetings from the GM, thus reserving the meetings for appropriate debate on key issues.

While the Mayor plays the crucial role in chairing Council meetings, all elected members have a role to play to ensure that discussion and debate on Council issues is robust and productive, and to ensure that Council meetings are conducted with transparency and in accordance with the meeting procedures. A number of Councillors need to increase their awareness of their roles and responsibilities as elected members of their community, and what constitutes appropriate behaviour during Council meetings.

During the investigation it was also found that, on occasion, meeting procedures have not been complied with. Examples include reconsideration of past decisions and variations to budget estimates. Accurate advice on meeting procedures and the Act needs to be provided to the Council at all times.

To assist with improving communication between councillors, the Mayor and the General Manager, one of my recommendations is that each councillor individually meet with the Mayor and the General Manager at least twice a year. On consultation with the Council, the Council's preference was to meet with the General Manager and the Mayor as a group. I am supportive of this occurring however, I am of the firm view that in addition to this, each councillor should individually meet with the Mayor and the General Manager. This is the only recommendation in my report not adopted by the Council; I urge the Council to reconsider its position. It is difficult to envisage how the joint legislative responsibilities of the Mayor and GM to monitor the performance of individual councillors can be done without regular meetings being held.

Recommendations

In order to improve the effectiveness of Council meetings, it is recommended that:

1. all Councillors undertake a specifically designed training course, such as that provided by the Australian Institute of Company Directors or the Local Government Association of Tasmania, or one delivered by an appropriately experienced/qualified person/consultant, focussing on leadership and the roles and functions of Councillors;
2. the Mayor and General Manager meet with each councillor, and as a group, at least twice a year to discuss concerns and provide appropriate support where required;
3. the Mayor and General Manager explore options for restructuring the Council meeting agenda to ensure the focus of debate is on broad policy and strategic matters;
4. where Councillors seek detailed information on budget and what could be interpreted as operational matters, they should first liaise with the General Manager or the senior

financial manager. Additionally the Council should be provided with a quarterly update on progress of its Annual Plan;

5. the Council ensures it complies with Section 82 (Estimates) of the *Local Government Act 1993*; and
6. all reports to Council are informative, relevant, accurate and up-to-date.

4. Implementation of Council Policies

A number of the complaints forming part of my investigation, related to implementation of Council policies and decisions by the Council's staff. There were also concerns raised about Council policies not being up-to-date. Policies are critical to the effective and efficient operation of a council and therefore the Council needs to ensure that it has appropriate up-to-date policies.

A search of the Council's website reveals that a number of policies require reviewing and updating. A random selection of policies revealed that three were developed on 25 October 2006 (Council Vehicles Policy, Re-allocation of Budgetary Items Policy, Financial Reserves Policy) with no further review, the Provision of Communication Equipment to Councillors Policy was developed on 24 April 2007 with no further review and the Payment of Allowances & Expenses & Provision of Facilities for Councillors Policy was last reviewed on 1 March 2009.

With respect to the Council's Tendering and Contracts Policy, there is evidence that the Policy was not always strictly followed. While Council policies should be adhered to, on occasions when the Policy was not strictly followed this appears to have been done in order to achieve a better or at least equivalent, financial outcome for the Council. Nonetheless, the Policy needs to be updated to accommodate a more pragmatic approach.

Furthermore, transparency on the sale of Council assets could be improved by offering Council assets for sale to the public rather than just Councillors and staff. While advertising can be costly, there are other mechanisms, such as the Council's internet website or local newspapers or newsletters, where assets can be put for sale.

Recommendations

To address these matters, it is recommended that:

7. a schedule of Council policies, processes and delegations to be reviewed by the Council be developed and implemented in a timely manner;
8. the Council's Tendering and Contracts Policy is amended to facilitate the best outcome in selling Council property and assets; and
9. the Council consider listing assets that are for sale on its website and local newspaper/newsletters.

5. Financial performance, systems and processes

5.1 Financial performance

In the Report of the Auditor-General No. 7 of 2014-15 (the Auditor-General's Report), the Auditor-General concluded that at 30 June 2014, the Council was at moderate risk from an asset management perspective, but a low risk from a net financial liabilities/ financial operating perspective. This is based on the ratios and results in Table 1.

**Table 1 – Glamorgan-Spring Bay Council financial and asset management ratios
Auditor-General of Tasmania**

Ratio	Result
Operating surplus ratio (benchmark zero)	1.9
Asset sustainability ratio (benchmark 100%)	83%
Road consumption ratio (benchmark >60%)	65.8%
Net financial liabilities ratio (benchmark 0 to -50%)	-13.2%

A snapshot of the Council from the Auditor-General's Report shows in 2013-14:

- The Council recorded an Underlying Surplus for the year of \$0.218 million a significant improvement on the Underlying Deficit of \$0.717 million reported the previous year.
- The Council's Net Result for the year was a surplus of \$0.692 million.
- The Council's Net Working Capital declined from \$1.534 million at 30 June 2011 to \$0.456 million at 30 June 2014.
- At 30 June 2014, the Council had net assets of \$105.424 million with its most significant asset being property, plant and equipment, \$76.179 million, and its largest liability, total borrowings, \$1.987 million.
- Rates per capita increased by 13.7% since 30 June 2011 and rates per rateable property increased by 12.8% over this period.
- Operating costs per rateable property increased by 25.9% since 30 June 2011.
- Full time equivalents (FTEs) increased by six (or 13.4%) since 2011 and over this period average cost per FTE increased by 2.3%.

Based on the above indicators, the Auditor-General did not make any high-risk findings. However, six moderate-risk and four low-risk audit findings were brought to the Council's attention. They also formed the basis for the terms of reference for the audit undertaken by Deloitte.

The moderate risk findings included:

- Testing of 10 Council committee accounts noted accountable persons for three Council committee accounts were not able to be contacted nor were there any financial reports or bank statements to substantiate the 30 June 2014 balances available. Furthermore, none of the financial reports received for the remaining seven Council committee accounts was signed by an accountable person. While the amounts involved were within the Auditor-General's materiality assessments, because cash is involved, the Auditor-General concluded that accountability arrangements are not acceptable and the Council needs to address this.
- Not recognising the value of land under roads at fair value in accordance with Australian Accounting Standard 051 - Land Under Roads.
- Improvements are needed to reconciliations between additions to non-current assets recorded in the Xero accounting system and disclosures in the notes to the financial statements.
- Some payments selected for testing had not been approved by employees with appropriate delegation.
- There was a lack of independent review of payroll reports.
- Weaknesses in monitoring and user access management to the Xero accounting system were identified.

A key concern raised by the Auditor-General was that matters reported in prior reports to Parliament were not being addressed by the Council. The Auditor-General stated that an assessment of the extent to which matters raised during prior audits have been addressed, revealed that a number of findings raised in prior years were still outstanding.

Recommendations

It is recommended that:

10. a full copy of the Auditor-General's Annual Audit Report, including key findings, assessment of financial sustainability and management responses, is tabled at the next available Council meeting following its completion;
11. on the advice of the Audit Panel, the Council develop a schedule for addressing the findings in the Auditor-General's Report; and
12. progress in implementing the Auditor-General's findings be reported to the Audit Panel and to the Council as part of the regular financial reports.

5.2 Financial systems and processes

Despite not identifying any 'high' sustainability risk issues, the Auditor-General's audit of the Council's 2013-14 financial statements uncovered a number of significant matters regarding the Council's financial systems, controls and processes. Consequently, I requested that the Council

engage an independent auditor to consider these matters and the general performance and integrity of the Council's financial systems and processes. As noted earlier, Deloitte was appointed to undertake the audit.

The independent audit identified a number of issues in relation to the Council's financial management practices and processes, including the use of credit cards and issues with delegation and separation of duties, which were assigned an 'extreme' risk rating (refer to Table 2 below).

It also identified issues in relation to the appropriateness of the Council's financial practices and processes including: budget variations; general journal entries; and consistency between the Council's policies and the Act, as well as the adequacy of Council policies governing the creation and operation of Council committees, assigning these areas a 'high' risk.

Table 2 - Operational risks identified from the audit of the Council's operations

Topic Area	Risk Rating
1. Appropriateness of financial practices and processes including: budget variations; general journal entries; and consistency between Council policies and the <i>Local Government Act 1993</i>	High
2. Appropriateness of and compliance with financial delegations and separation of duties	Extreme
3. Adequacy of the policies governing the creation and operation of Council committees	High
4. Strategies and practices implemented to resolve issues raised by the Auditor-General	Medium
5. Compliance with the Council's Tender and Contracts Policy with respect to the sale of Council vehicles	Low
6. Appropriateness of and compliance with recruitment and performance management policies	Medium
7. Appropriateness of information technology practices, processes, and security	Medium
8. Appropriateness of and compliance with the processes relating to the use of corporate credit cards and approval of expense reimbursement	Extreme

The Deloitte's audit indicates that the Council needs to make some changes to its financial systems and controls. It is important to note that the audit did not identify any cases of fraud, misappropriation or misuse of funds. Based on the findings of the internal audit and the Auditor-General's Report, I make the following recommendations to the Council.

Recommendations

It is recommended that the Council:

13. appoints a full-time senior financial officer to manage the financial affairs of the organisation;

14. asks the Audit Panel to conduct a review of the Council's credit card and/or expenses policies to ensure it complies with best practice and refer it to the Council for approval and implementation;
15. conducts a review of the financial management processes and procedures for Council committees;
16. reviews its strategic plan, long-term financial management plan and strategic asset management plan, ensuring that all three extend for a period of at least 10 years; and
17. conducts a review of its financial management or accounting system – Xero. The review should, as a minimum, address the following:
 - (a) staff access and approval abilities within the system;
 - (b) delegation limits given to staff including automated control within the system;
 - (c) appropriate segregation of duties for staff with access to the finance system; and
 - (d) capacity for regular review of the system's audit trail.

Having appropriate systems, policies and procedures in place helps minimise the potential for fraudulent or inappropriate financial activities. While this has not been identified as a concern throughout my investigation, it would be prudent for the Council to adopt the precautionary principle in relation to such matters.

6. Human resource management

My investigation has found that the Council has a committed and dedicated workforce. However, I have a number of concerns regarding the Council's capability in human resource management. The Council does not have a human resource manager; however, it has engaged a consultant to part fulfil this role. The continued engagement of a human resource manager or consultant would allow the Council to finalise its Enterprise Bargaining Agreement and review or create policies and processes around workplace health and safety, recruitment and performance management.

Recommendations

It is recommended that:

18. the Council either continue its engagement of the human resource consultant on a permanent basis, or employ a dedicated human resources manager, and that, as a matter of priority, the human resource consultant or human resources manager:
 - (a) finalises the Enterprise Bargaining Agreement for the Council;
 - (b) formalises a performance review process for Council staff;
 - (c) reviews and updates the Council's policies and procedures that relate to the workplace health and safety and wellbeing of the Council's staff; and
 - (d) reviews and updates the Council's employment policies and procedures.

7. Summary of Recommendations

It is recommended that:

Council meetings

1. all Councillors undertake a specifically designed training course, such as that provided by the Australian Institute of Company Directors or the Local Government Association of Tasmania, or one delivered by an appropriately experienced/qualified person/consultant, focussing on leadership and the roles and functions of Councillors;
2. the Mayor and General Manager meet with each councillor, and as a group, at least twice a year to discuss concerns and provide appropriate support where required;
3. the Mayor and General Manager explore options for restructuring the Council meeting agenda to ensure the focus of debate is on broad policy and strategic matters;
4. where Councillors seek detailed information on budget and what could be interpreted as operational matters, they should first liaise with the General Manager or the senior financial manager. Additionally the Council should be provided with a quarterly update on progress of its Annual Plan;
5. the Council ensures it complies with Section 82 (Estimates) of the *Local Government Act 1993*; and
6. all reports to Council are informative, relevant, accurate and up-to-date.

Council policies

7. a schedule of Council policies, processes and delegations to be reviewed by the Council be developed and implemented in a timely manner;
8. the Council's Tendering and Contracts Policy is amended to facilitate the best outcome in selling Council property and assets; and
9. the Council consider listing assets that are for sale on its website and local newspaper/newsletters.

Financial performance

10. a full copy of the Auditor-General's Annual Audit Report, including key findings, assessment of financial sustainability and management responses, is tabled at the next available Council meeting following its completion;
11. on the advice of the Audit Panel, the Council develop a schedule for addressing the findings in the Auditor-General's Report; and

12. progress in implementing the Auditor-General's findings be reported to the Audit Panel and to the Council as part of the regular financial reports.

Financial systems and processes

13. appoints a full-time senior financial officer to manage the financial affairs of the organisation;
14. asks the Audit Panel to conduct a review of the Council's credit card and/or expenses policies to ensure it complies with best practice and refer it to the Council for approval and implementation;
15. conducts a review of the financial management processes and procedures for Council committees;
16. reviews its strategic plan, long-term financial management plan and strategic asset management plan, ensuring that all three extend for a period of at least 10 years; and
17. conducts a review of its financial management or accounting system – Xero. The review should, as a minimum, address the following:
 - (a) staff access and approval abilities within the system;
 - (b) delegation limits given to staff including automated control within the system;
 - (c) appropriate segregation of duties for staff with access to the finance system; and
 - (d) capacity for regular review of the system's audit trail.

Human resource management

18. the Council either continue its engagement of the human resource consultant on a permanent basis, or employ a human resources manager, and that, as a matter of priority, the human resource consultant or human resources manager:
 - (a) finalises the Enterprise Bargaining Agreement for the Council;
 - (b) formalises a performance review process for Council staff;
 - (c) reviews and updates the Council's policies and procedures that relate to the workplace health and safety and wellbeing of the Council's staff; and
 - (d) reviews and updates the Council's employment policies and procedures.