

## INTERNAL AUDIT REPORT



### PROCUREMENT CARDS 2018/19

<b>Issue Date:</b>	30 <sup>th</sup> April 2019	<b>Issued to:</b>	Sav Della Rocca – Strategic Director for Resources
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## PROCUREMENT CARDS 2018/19 EXECUTIVE SUMMARY

### 1. INTRODUCTION & OVERALL OPINION

During 2018/19 the Council issued a number of procurement cards (PCards) to officers in order to facilitate efficient ordering of low value goods and services. At the time of reporting, there are 45 cards in use. In the first three quarters of 2018/19, a total of £46,828 was incurred via these cards and feedback sought from card holders was consistently positive in that it had enabled them to operate more efficiently.

In introducing the new cards, the Council implemented a Procurement Card policy which is clear and comprehensive and includes a number of rigorous controls for managing the risk of fraud and misuse. As the procurement card scheme has evolved over the last year, management have sought to revise the control environment to make this proportionate to the level of risk associated with the expenditure and to reduce administrative burden on card holders. It is acknowledged by management that, in doing so, they have raised the level of risk tolerance in relation to the card usage but the values associated with the cards are considered to pose a low organisational risk overall, with a maximum transactional limit of £100 in many cases. At the time of audit, the policy and card holder terms had not yet been amended in line with the revised approach and, as such, were inconsistent with the controls operating in practice.

The Finance team undertake a monthly review of overall expenditure on the cards and analyse trends. All cardholders have signed acceptance of the Council's policy, which clearly states that misuse can result in disciplinary procedures, and managers are expected to monitor the value of card use through standard budgetary control.

In certain settings, it has been acknowledged that the nature of some services is requiring one card to be accessible to multiple officers. In a number of cases, the Finance team have worked with these services to ensure appropriate record keeping is in place and appropriate controls are exercised. In such circumstances, the cardholder terms should also be amended to reflect this different type of use and provide guidance on suitable controls.

Each cardholder has the ability to review transactions on the cards in real time through the management system. This system does not reliably identify all VAT paid and a consistent approach to coding of VAT needs to be adopted.

Internal Audit Assurance Opinion					
<b>Control environment</b>	Satisfactory		●		
<b>Compliance</b>	Satisfactory		●		
<b>Organisational impact</b>	Minor		●		
Risk	Control Environment	Compliance	Recommendations		
			H	M	L
<b>01 - Unauthorised access to Council cards</b>	Satisfactory assurance	Satisfactory assurance	1	1	-
<b>02 - Fraudulent or inappropriate use of cards by staff</b>	Satisfactory assurance	Satisfactory assurance	-	-	1
<b>03 - Inability to accurately report expenditure on procurement cards and reclaim VAT due</b>	Satisfactory assurance	Satisfactory assurance	-	1	-
<b>Total Number of Recommendations</b>			<b>1</b>	<b>2</b>	<b>1</b>

### 2. SUMMARY OF FINDINGS

It is evident that the introduction of the procurement cards has assisted officers in operating more efficiently in ordering low value goods and has reduced reliance on, and the increased risks associated with, use of petty cash.

Whilst a comprehensive policy has been in place since the implementation of the cards, the policy and card holder terms have not yet been amended in line with the Council's evolved approach and risk tolerance and, as such, are inconsistent with the controls operating in practice. Arrangements are in place for the Finance team to monitor the cards' usage and strictly control the issuing of the cards but the operational controls are not consistent with those stated in the existing policy. It is acknowledged that the policy requires amendment to reflect the revised approach that has been adopted and evolved over the last twelve months. **Recommendation one** addresses this finding.

### **Risk 1: Unauthorised access to Council cards**

In order to obtain a card, an application form must be approved and signed by the relevant manager and the Finance team. The form requires details of the justification for a card and, in approving the application, the manager accepts responsibility for taking any action in the case of abuse of the card. The manager and Finance must also sign to approve the application.

All card holders are required to sign acceptance of the Council's terms and conditions upon receipt of a card and these specify that the card must only be used by the named cardholder. The cardholder also agrees that 'in the event of my PCard being lost, stolen or compromised, I will immediately contact Lloyds Bank and Financial Services'.

The terms of agreement signed by each cardholder further state that should their employment with the Council cease for any reason – or should they no longer require a card - that they must return the card to the Council's Finance team. It is clearly stated on the acceptance form that the cardholder must understand the policy and be aware that any non-compliance with the policy or terms could lead to disciplinary procedures. The Finance team also receive notification of leavers to identify any cards requiring termination.

In sample testing, it was confirmed that all of the five cards selected:

- Had been allocated based on a signed acceptance of the terms and policy; and
- Were held by current, permanent members of Council staff.

It is noted that in one case within the sample that the nature of the service required the card to be accessible to multiple officers. It is noted that such shared use of certain cards is known by the Finance team and where they were aware of this have supported services to introduce records to ensure audit trails and secure storage. Where the cards are to be used in this manner, the terms agreed and guidance given upon issuing of the cards should reflect this. **Recommendation two** addresses this finding.

### **Risk 2: Fraudulent or inappropriate use of cards by staff**

The Council's policy on use of PCards was produced and approved in 2018 ahead of the roll out of the cards. All cardholders have been required to sign acceptance of the policy and terms, including that any misuse/use for non-Council purposes may result in disciplinary procedures.

It is acknowledged that the Council is seeking to provide for efficiencies in the use of the cards and is thereby reducing burdensome controls and managerial review/approval given the low individual transactional limits in place. The risk of fraudulent use is currently being managed through review of statements by the Procurement Card Administrator and monthly analysis of trends and usage. This, alongside the deterrent enforced by the policy and disciplinary implications for misuse, have been considered by management as proportionate to the risk posed by the Council's card usage and its financial value.

The Council's current policy and terms require card holders to complete transaction logs every month, within two days of the statement close date, and to submit this along with supporting receipts to the 'reconciler/approver'. However, on the basis that the management system enables all transactions to be viewed in real time and the revised approach to monitoring spend that has been adopted, these are not currently produced. As above, the policy is due to be amended to reflect this.

In introducing the cards, the Council has reduced the use of petty cash – which can present a greater fraud risk - and provided greater transparency over expenditure in those areas previously reliant on petty cash. During testing of a sample of transactions, Internal Audit reviewed expenditure to form an opinion on whether the transactions were consistently on Council-related, appropriate use. Some items of expenditure were highlighted to the Finance team for further review but there were no instances identified where financial procedure rules had been breached.

Discussions with a sample of cardholders highlighted that less than half of those contacted access their card statement on a monthly basis. There is a risk, as such, that fraudulent transactions may not be identified and promptly reported to the card provider for recovery and investigation. The requirement to undertake this check is clearly stated in the policy and terms agreed by the cardholders. **Recommendation three** addresses this finding.

### **Risk 3: Inability to accurately report expenditure on procurement cards and reclaim VAT due**

The Council publishes all PCard expenditure online, both in PDF and spreadsheet format. This includes details of the spend, the retailer, value and service area. At the time of audit, all three quarters of the latest financial year to date were available online.

The PCard Administrator also produces a monthly analysis which is provided to the Finance Manager including analysis of usage and spend.

The primary record of transactions is the management system. This system logs all transactions in real time but does not reliably identify all VAT elements of the transactions. As such, it is understood that the PCard Administrator primarily only codes out VAT for items purchased through the corporate Amazon account – for which VAT evidence is available. Given the value of transactions, the potential for unclaimed VAT is considered by the Finance team to be low.

In sample testing, £190 of unclaimed VAT was identified by Internal Audit from receipts which were held by the cardholders, across 13 transactions. It was also noted that for a further 13 transactions VAT had been coded out where there was no VAT receipt held to support this. This demonstrates the risk of making assumptions regarding the VAT status without supporting evidence and not adopting a consistent approach to coding in all cases. In the event of a VAT inspection there is a risk that unsupported VAT claims may be subject to recovery. There may be opportunity to request that cardholders share evidence of VAT eligible transactions with Finance and, in these cases, it should be claimed. The approach should remain consistent that in any case where evidence is not held by Finance no VAT should be claimed. **Recommendation four** addresses this finding.

### **3. ACTION PLAN**

The following action plan provides recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks.

### **4. LIMITATIONS TO THE SCOPE OF THE AUDIT**

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.

## ACTION PLAN

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
1	The current Procurement Card policy includes a number of controls which are not applied in practice, since the risk tolerance adopted by the Council has been revised.	<p>The policy should be reviewed to confirm that it clearly reflects expected practices and controls and is suitably and consistently enforced.</p> <p>The policy should also include version control and an owner.</p>	Policy will be reviewed and amended to reflect the current operation	High	Finance Manager	June 2019
2	<p>Where required by the service, certain cards are accessed and used by multiple officers, rather than just the named card holder. An example of this was identified in sample testing.</p> <p>Should any fraudulent expenditure be incurred on such a card, either by a member of staff or by a third party, there should be appropriate audit trails in place to enable robust investigation and accountability.</p> <p>The current card holder terms do not allow for shared use of cards and do not stipulate the controls expected.</p>	<p>If the Council is to amend the policy to enable shared use of cards in such circumstances, this must be aligned with requirements of the card provider and controls/procedures amended to manage this additional risk.</p> <p>Templates should be provided to teams where this is to be allowed, to ensure a full audit trail of card use and handling and the terms signed by these cardholders should reflect this use of the cards and guidance provided on expected controls.</p>	Will be looked at in line with recommendation 1	Medium	Finance Manager	June 2019
3	Discussions with a sample of cardholders highlighted that less than half of those contacted had accessed their card statement on a monthly basis.	All card holders should be reminded of the need to review their card statements on a monthly basis so as to promptly identify any fraudulent spend which they have not incurred.	The recommendation will be looked at in line with recommendation 1	Low	Finance Manager	June 2019

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
	There is a risk, as such, that fraudulent transactions may not be promptly identified and reported to the card provider for recovery and investigation. The requirement to undertake this check is clearly stated in the policy and terms agreed by the cardholders.					
4	<p>The recoding of VAT over the last year has been inconsistent. Cases have been identified where VAT was recoverable but has not been coded out and other instances where VAT has been coded out and there is no supporting VAT receipt.</p> <p>As such, there is a risk that the Council is losing money through failing to recover VAT and may also be at risk of failing to demonstrate VAT status for some transactions where it has been coded out.</p>	<p>A mechanism should be in place to enable VAT to be consistently accounted for. This may include requesting that card holders notify Finance of any VAT eligible transactions over a certain financial value. Where such evidence is not received no VAT should be coded.</p> <p>It is understood that the Council is looking at possible finance system modules which could facilitate reliable VAT coding.</p>	<p>U4BW has a Pcard module and this will be reviewed to see how this can be used to improve controls.</p> <p>Will look at VAT coding as part of the review of the overarching policy</p>	Medium	Finance Manager	June 2019

## GLOSSARY

### The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The tables below explain what the opinions mean.

Compliance Assurances			
Level		Control environment assurance	Compliance assurance
<b>Substantial</b>	●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
<b>Good</b>	●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
<b>Satisfactory</b>	●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
<b>Limited</b>	●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
<b>No</b>	●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
<b>Major</b>	●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
<b>Moderate</b>	●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
<b>Minor</b>	●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

### Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority		Impact & Timescale
<b>High</b>	●	Action is imperative to ensure that the objectives for the area under review are met.
<b>Medium</b>	●	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
<b>Low</b>	●	Action recommended to enhance control or improve operational efficiency.