



Internal Audit Report

Customer Services
Procurement

Purchase Card Review

February 2013

1. INTRODUCTION

- 1.1 As part of the Annual Audit Plan for 2012/13 Internal Audit undertook a review of the purchase cards in operation. Managing corporate spending efficiently through a structured approach to purchasing offers the potential to significantly improve financial performance with lower prices and a reduction in operating costs. The use of purchasing cards within the Council gives scope for improved analysis of purchases especially with the imminent introduction of the Purchasing Card Consultancy Limited (PCCL) agreement. The strength of this system is that it will allow greater analysis of expenditure against items such as catering purchases.
- 1.2 The total value of creditor payments in the financial year 2011-12 was £169m of which £0.5m related to purchasing card payments, however, the council is looking to expand considerably the use of purchasing card payments in the new financial year beginning with Catering payments. Consequently it is important that basic control procedures are in place for the proposed expansion program.
- 1.3 Internal audit will focus on the use of purchasing cards for procuring goods and services and will review the controls surrounding their use. Internal Audit will also carry out a cost/benefit analysis as regards the PCCL agreement.

2. AUDIT SCOPE AND OBJECTIVES

- 2.1 The key objectives of the audit will be to review the controls already in place surrounding the use of purchasing cards:
 - Select a sample of credit card users and ensure that proper authorisation limits have been allocated;
 - Ensure that the Council has an overall credit limit and that this has been adhered to;
 - Select a sample of credit card payments and ensure that they are being debited to the correct account
 - Ensure that there is a division of duties between use of the cards and reconciliation of invoices logs and statements;
 - Ensure that usage is restricted to appropriate suppliers, merchants or retailers;
 - Obtain sight of the procedural instructions and confirm from discussion and observation that they have been issued to relevant staff;
 - Confirm that there are adequate controls over the security of cards especially over loss of cards:
 - Ensure VAT is being properly claimed: and
 - Review the current PCCL agreement.

3. RISK ASSESSMENT

- 3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:

SR16: Failure to have a robust internal control process and system.

4. CORPORATE GOVERNANCE

- 4.1 There were no Corporate Governance issues to be reported as a result of this audit.

5. MAIN FINDINGS

- 5.1 Written procedures on the use of purchase cards have not been received by all card holders.
- 5.2 A significant number of card holders have access to purchase goods and services not relevant to their own service requirements.
- 5.3 The cards issued for the schools being used to test the new PCCL card system have had no restrictions based on them.
- 5.4 Credit cards purchases are automatically debited to a default account code but in some instances card holders are not informing creditors if the actual expenditure is not appropriate to the default code.
- 5.5 The credit limit for the Purchasing Officers is deemed by Internal Audit to be excessive compared to their average monthly spend.
- 5.6 Purchase cards no longer in use are not always being returned to the Creditors Supervisor in Campbeltown.
- 5.7 VAT on expenditure is being reclaimed on an annual basis. This is too long a period and should be done monthly.
- 5.8 Expenditure outwith purchasing guidelines is being undertaken directly by schools rather than via Purchase Officers. Adherence to guidelines is recommended.

6. RECOMMENDATIONS

- 6.1 Six recommendations were identified as a result of the audit. The recommendations have the following priority ranking, one at high, 3 medium and 2 low. The recommendations are shown in the action plan attached at Appendix 2

and have been compiled with the co-operation and agreement of senior management.

- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.
- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

7. AUDIT OPINION

- 7.1 It is the view of Internal Audit that based on the findings of the audit there are sufficient controls in place to ensure that purchase cards are being properly controlled.
- 7.2 Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8. ACKNOWLEDGEMENTS

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:
- Procurement and Commissioning Manager;
 - Creditors Supervisor;

- Creditors Section; and
 - AFA's at Oban High.
- 8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 2

ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There were a number of Community Services - Education cardholders who replied to the questionnaire stating that they had not received all the relevant procedural instructions.	Medium	A copy of the procedures surrounding the use of purchase credit cards should be e-mailed by the creditors supervisor to all purchase card users with a message attached requesting them to confirm that they have read and understood the procedures.	Creditors supervisor	Completed
2	Card holders should only have the ability to access goods and services specific to their service requirements. It was found that those card holders who had received cards when the scheme was started had been given access to procure goods and services out with their requirement.	Medium	A review of all restrictions associated with purchase cards should be carried out to ensure that users only have access to goods and services specific to their service requirements.	Creditors supervisor	Completed
5	Internal audit visited the Area Finance Assistant at Oban High school and found that the use and control of purchase cards was generally within the guidelines laid out. All purchases were properly authorised beforehand and paperwork was in order.	High	Procedures should be updated and implemented to ensure that VAT is reclaimed timeously and that copies of VAT invoices are scanned and e-mailed to the Creditors Supervisor who can arrange to have the VAT reclaimed for all purchase card holders.	Purchase card holders and Creditors Supervisor	31 st March 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	However, in looking at the VAT treatment of invoices sampled it came to light that the VAT is reconciled and consequently reclaimed only on an annual basis. Ideally all purchase cards invoices where VAT can be reclaimed should be scanned when received and attached to an e-mail and forwarded to the creditors supervisor.				
6	Expenditure as regards hotel accommodation and flights were booked directly by the school rather than via the purchase officers.	Medium	Schools should be reminded that the Council's policy is to book hotel and flight expenditure other than for school trips via the purchase officers.	Procurement and Commissioning Manager	31st March