

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	FINANCIAL SYSTEM AUDIT
AUDIT TITLE	CREDITORS - PURCHASING CARDS
AUDIT DATE	APRIL 2014

2013/2014



1. AUDIT SCOPE AND OBJECTIVES

This report has been prepared as a result of the Internal Audit review of Creditors, Purchasing Cards within Customer Services as part of the 2013/2014 Internal Audit programme.

The main objectives of the audit are to assess and report on the following areas:

- To ensure that purchasing cards are only used where no appropriate procurement contract for those goods or services exist.
- That controls and procedures are in place and detail the proper use of purchasing cards.
- That appropriate authorisation limits are in place for each card user and that they are adhered to.

2. RISKS IDENTIFIED

Procedures outlined for the use of Purchasing cards are not adhered to thus resulting in the failure to achieve best value for money. .

3. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

4. FINDINGS

The following findings were generated by the audit:

- Departments are spending in excess of £1m per annum on supplies and services via the use of Purchase cards.
- Procedures outlining the controls and procedures concerning the use of purchase cards have recently been updated and have been reviewed by Internal Audit and found to be comprehensive.
- An analysis of orders placed by Development and Infrastructure in “Mid Argyll and Oban Lorn and the Isles” showed that 320 of the 987 orders, raised between January and March 2014, were raised retrospectively i.e. after delivery of the goods or services. It also showed that within Cowal and Bute and Helensburgh and Lomond, of the 674 orders raised 155 were raised retrospectively. In view of the fact the orders are being raised retrospectively, we can conclude that departments are not utilising agreed Council contracts.
- A sample of 40 purchases from 4 schools showed that 12 of the 40 purchases were made where an existing Council contract was in place.

- It was found that departments are buying goods and supplies with purchase cards and that VAT is not always reclaimed.

5. CONCLUSION

This audit has provided a Substantial level of assurance. There were two medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There were no low recommendations. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Customer Services staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures and guidelines		High/ Medium or Low		
<p>An analysis of purchases made by departments showed a number were raised retrospectively. These orders show that departments were not utilising the services of the purchasing assistants, to ensure that the goods and services purchased resulted in value for money for the Council.</p> <p>A sample of 10 purchases made by card, from 4 schools were examined with the assistance of the Procurement team, to ascertain whether the Council had existing contracts in place for the items. 30% of items purchased were made where an existing Council contract was in place.</p>	<p>Failure to use Council procurement contracts for supplies and services can result in Departments not achieving best value for money.</p>	<p>Medium</p>	<p>Prior to utilising the purchase cards, technical officers should ensure that the items /goods are not available via a more favourable Council agreed contract. Rules surrounding use of purchase cards should be reiterated. Purchasing cards should only be used:</p> <ol style="list-style-type: none"> 1) the requirement is of low value and infrequent ; 2) One off purchases and less than 3 purchases per year. 	<p>Procurement and Commissioning Manager</p> <p>31 July 2014</p>

<p>There is a substantial amount of purchases made from Amazon using purchase cards. Due to a valid VAT invoice not always being forwarded to creditors there is a concern that the finance are not recovering input VAT on purchases made.</p>	<p>Failure to recover valid input VAT</p>	<p>Medium</p>	<p>Creditors to review VAT issue with VAT advisors in order to minimise instances where VAT is not reclaimed.</p>	<p>Creditors Team Leader 31 July 2014</p>
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