



Internal Audit Final Report

Purchasing Cards (Follow up)

Directorate: Finance
Date: 24th November 2010

Contents

1. Introduction
2. Objectives of the Audit
3. Audit Opinion
4. Management Action Plan

Appendices: Explanation of Categorisation of Audit Reports

1. Introduction

- 1.1. A follow up audit review of the Purchasing Card system was undertaken as part of the 2010/11 annual Internal Audit Plan. This area was last subject to an audit review in December 2009/10 and was graded as limited
- 1.2 The follow up audit was carried out at the request of the Chief Accountant to give assurance on the controls within the system before the scheme is rolled out further. At the time of the audit there were 36 active cardholders recorded on the system with transactions totalling £129,793.00 for the period November 2009-2010.
- 1.3 The previous audit reported 3 significant findings to management, these were:
 - That Cardholders were not carrying out a card holder review of the card transactions in a timely manner.
 - There is no corporate review that ensures all transactions have been authorised after the cardholder has carried out their own review.
 - The process for the return and destruction of purchasing cards required reviewing.
- 1.4 The functions of the section were documented; key controls were identified and testing undertaken. The audit findings are based on discussions with staff, observations, and the results of sample testing.
- 1.5 This report sets out the findings of the review and makes recommendations, where it is felt that improvements in financial and non-financial administration could be made.

2. Objectives of the Audit

- 2.1. The main objective of the audit was:
 - To follow up management implementation of the significant recommendations from the previous audit report

3. Audit Opinion

- 3.1 Of the three significant recommendations made during the previous audit in Dec 2009 audit are disappointed to report that all 3 recommendations have not been implemented satisfactorily into the Purchasing card system as follows
 - i. *That Cardholders were not carrying out a card holder review of the cards transactions in a timely manner.* The audit testing found that both card holder reviews and authorisations were not being carried out in a timely manner.
 - ii. *There is no corporate review that ensures all transactions have been authorised after the cardholder has carried out their own review.* Over a 6 month period 23% of the total number of transaction had not been authorised after 5 weeks or more

- iii. The process for the return and destruction of purchasing cards required reviewing.*
Although central procurement has developed a form to control the return and destruction of purchasing cards, the information on the requirements for returning cards had not been disseminated to Cardholders or Management.
- 3.2 Based on the audit work carried out, it is felt that there are areas where adequate controls are in place to minimise potential risk to the authority and to ensure that the systems objectives are met; however there are some areas of concern where controls still require implementation as recommended previously. The overall opinion is that the controls in place are operating ineffectively with other areas requiring new implementation of controls, the level of assurance gained therefore remains limited. Audit recommend that management address these control weaknesses before rolling purchasing cards out further.
- 3.3 This report is a report of exception and therefore only where issues have been identified have they been commented on.

4. Management Action Plan

Rec. No.	Recommendation	Categorisation	Para. No.	Agreed	Management Comments	Officer Responsible	Date to be implemented
1	It needs to be stressed upon card holders that they must “card holder” review their transactions in a timely manner. Where this is a persistent problem, consideration should be given to removing the card in line with the card holder agreement or where there is a business requirement to keep the card in place then disciplinary action should be considered.	Significant	4.1	Yes	<p>The current training programme already stresses that they must review their transactions in a timely manner on the SDOL system.</p> <p>We agree that persistent offenders should be subject to disciplinary action and that all new and existing cardholders should be made aware of this and sign a new cardholder agreement.</p> <p>New card holder agreements are to be sent out and signed. The card holder guide has been revamped to highlight and reinforce the need for transaction review.</p>	Group Manager Procurement	January 2010
2	Responsibility should be assigned at a Corporate level for the regular review of transactions to ensure that these have been supervisor reviewed.	Significant	4.2	Yes	The Financial Control Team will examine transactions on a monthly basis to ensure that they have been reviewed by the appropriate supervisor. Where this has not happened, supervisors will be issued reminders and persistent offenders will be notified to the Chief Accountant.	Chief Accountant	January 2010

Rec. No.	Recommendation	Categorisation	Para. No.	Agreed	Management Comments	Officer Responsible	Date to be implemented
3	Management should implement agreements for authorisers/intermediates to ensure they are guided by appropriate terms and conditions for the role. The terms and conditions of this agreement should also be included within the training for authorisers/intermediates to ensure that their responsibilities are fully understood particularly on the timeliness of reviews and authorisations	Significant	4.2	Yes	A supervisor agreement is now in place and protocols for card use and sign off, will be placed on the Internal website. Failure by supervisors to action within agreed timescales will also be subject to disciplinary action. The supervisor agreement now clearly states this. New supervisor agreements are to be sent out and signed by all existing supervisors. All new supervisors/ cardholders will sign following the training.	Group Manager Procurement	January 2010
4	Staff should receive information on how cards are to be returned/destroyed	Significant	4.3	Yes	A new process is now in place which requires the card to be destroyed within the relevant service area. This is to be undertaken by the supervisor of the cardholder, and then a cancellation form must be signed by an independent witness and the head of department. The supervisor must then forward the cut up card with the cancellation form to the Corporate Procurement Unit. Procurement then ensures the card is destroyed (witnessed by another colleague) and arranges for the account to be close by the bank. Card Supervisors will be responsible for ensuring the process is completed within service areas and the supervisor agreement includes this instruction. All card holders and supervisors have had a letter detailing the requirements for a leaver. The card cancellation form will also be posted to the Internal website.	Group Manager Procurement And Accountable Managers in card Service Areas	January 2010

Explanation of Categorisations for Audit Reports

Individual Recommendations

For each control reviewed, where it was established that the control is either not in place or is in place but not being adhered to, a recommendation will be made. Each recommendation will be given a categorisation based upon the severity of the missing control. The categorisations are as follows:

- Fundamental - action that is considered imperative to ensure that the Authority is not exposed to high risks;
- Significant - action that is considered necessary to avoid exposure to significant risks;
- Merits attention - action that is considered desirable and should result in enhanced control or better value for money (VFM).

Individual Controls & Overall Report

The objective of an audit is to evaluate the system with a view to delivering reasonable assurance as to the adequacy of the application of the internal control system. The control system is put in place to ensure that risks to the achievement of the Authority's objectives are managed effectively.

Based upon the recommendations made, the categorisation of them and the areas that they relate to, an overall conclusion as to the level of assurance that can be provided will be given, as below:

Substantial Assurance

- Key controls exist and are applied consistently and effectively; and,
- Objectives are being achieved efficiently, effectively and economically (VFM).

Reasonable Assurance

- Key controls exist but there may be some inconsistency in application;
 - Compensating controls operating effectively; and,
 - Objectives achieved after a fashion, e.g. VFM could be improved.
- (some risk of loss, fraud, impropriety, or damage to reputation)

Limited Assurance

- Key controls exist but they are not applied, or significant evidence that they are not applied consistently and effectively; and,
 - Objectives are not being met, or are being met without achieving VFM.
- (a high risk of loss, fraud, impropriety, or damage to reputation)

No Assurance

- Key controls do not exist; and,
 - Objectives are either not met, or are met without achieving VFM.
- (a very high risk of loss, fraud, impropriety, or damage to reputation)