

## INTERNAL AUDIT REPORT

**FROM:** Audit and Risk Manager  
**TO:** Head of Finance  
**C.C.** Chief Executive  
Deputy Chief Executive (AJ)  
Exchequer Manager  
Finance Administration  
Manager  
Senior Procurement Business  
Partner  
Portfolio Holder (Cllr. Whiting)

**SUBJECT:** Purchasing Cards  
**DATE:** 22 March 2018

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### 1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

### 2 Background

- 2.1 This is the first direct audit of this topic, although the use of purchasing cards is covered during establishment audits undertaken.
- 2.2 Purchasing cards have been introduced to allow for low value expenditure to be made without the need for formal orders to be raised. This has become more relevant with the recent removal of petty cash.
- 2.3 There are currently 68 cards in operation, with cardholders in each department of the Council.

### 3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place. Analysis was also undertaken to ascertain if card usage was circumventing procurement processes in line with the Code of Procurement Practice.
- 3.2 In terms of scope, the audit covered the following areas:
- Applications, amendments and cancellations
  - Terms of use

- Monthly processing
- Expenditure analysis.

3.3 The audit programme identified the expected controls. The control objectives examined were:

- Cards are issued to authorised users
- Expenditure is appropriately controlled
- Leavers are no longer able to undertake transactions on their purchasing cards
- Card holders are aware of the terms of use
- Expenditure can be reviewed for appropriateness by senior staff
- Budget holders can accurately track their expenditure
- The Council is transparent regarding its expenditure
- Appropriate procurement practices are being followed.

## 4 Findings

### 4.1 Recommendations from Previous Reports

4.1.1 This section is not applicable as this is the first audit of this topic.

### 4.2 Applications, Amendments & Cancellations

4.2.1 Testing was undertaken to ensure that new cards issued are only issued upon receipt of appropriately authorised application forms. The test examined all current cards held which highlighted a couple of document retention issues, but these were historic and were before the responsibility for the management of purchasing cards had been passed to the Finance Administration Manager (FAM).

4.2.2 A comparison was undertaken between the current cards in operation and a list of cardholders from October 2016. This highlighted a number of changes to limits and a number of staff that no longer held cards as they had left the Council.

4.2.3 There had been one blanket change to cards, with single transaction limits and monthly spending limits being raised to a minimum of £1,000 if they had previously been below these thresholds. Testing was, therefore, undertaken to ensure that the changes to limits outside of these parameters had been authorised and appropriate documentation was in place to confirm that cards had been cancelled for leavers. This test proved satisfactory.

4.2.4 The FAM advised that lists of leavers are received from both IT and HR with these lists being used to ensure that cards are cancelled as appropriate when staff leave the Council.

### 4.3 Terms of Use

4.3.1 The terms of use are effectively covered in two separate documents, i.e. the agreement form and the procedure notes. New cardholders have to sign off the agreement form when they collect their card and this is countersigned by the Head of Service or an appropriately authorised line manager.

4.3.2 Following collection, The FAM will email the cardholder to remind them of their card limits etc. and this email includes a copy of the procedure notes and a sample transaction log.

4.3.3 The testing of new cards issued (see 4.2.1) above also covered the signing of agreement forms and no issues were highlighted.

#### 4.4 **Monthly Processing**

4.4.1 Cardholders have to complete monthly transaction logs to record items of expenditure which should reconcile to their monthly card statements. These logs should be signed off by the user, checked by another member of staff and then authorised by a relevant authorised signatory.

4.4.2 Sample testing was undertaken to ensure that logs were being recorded as appropriate, including relevant ledger codes which the expenditure needed to be recharged to, with the logs being signed off as appropriate.

4.4.3 Testing confirmed that the forms were largely being completed appropriately, with only two minor discrepancies noted – in both cases there being no signature from someone checking the transactions which is not considered to be a key control given that the forms are separately authorised.

4.4.4 However, during another test, it was noted that a form had not been authorised. In this instance a note was attached which suggested that the Head of Service was on leave, but no attempts had been made to get another authorised signatory to authorise the form. When this issue was flagged with the FAM, it was rectified immediately.

4.4.5 Testing was also undertaken to ensure that journals were being processed appropriately so that the ledger codes on TOTAL were being recharged correctly based on card usage and the payment made to the bank agreed with these figures.

4.4.6 This testing established that the journal for November 2017 (and the associated payment made to HSBC) did not balance to the figures on the transaction logs.

4.4.7 Upon further review it was noted that the logs for the Procurement Manager had been for odd periods, with a transaction being included on the October log which should not have been there. Whilst it was recorded again on the next log, it was incorrectly omitted from the journal as it was believed to have already been processed. This led to a variance of £54.99.

4.4.8 The issue was flagged with the FAM at the time of the audit and it was addressed at the time.

#### 4.5 **Expenditure Analysis**

4.5.1 As highlighted above, the scope of this audit specifically included expenditure analysis. During discussions with the FAM and the Procurement Officer (PO) it was clear that they had tried to get this looked at before but it had not been

undertaken. This was attributed to a combination of the HSBC system not allowing easy analysis and nobody having taken responsibility for it, despite it being raised with (amongst others) various members of Procurement.

## **Risk**

**Inappropriate procurement processes may not be identified.**

## **Recommendation**

**Regular analysis of purchasing cards usage should be undertaken.**

- 4.5.2 During sample testing of transaction logs, it was confirmed that all sampled transactions were considered to be appropriate business expenses. However, during establishment audits (referred to above), it had been flagged that some personal purchases had inadvertently been processed on the Council's cards.
- 4.5.3 The FAM confirmed that there had been few cases recently which tended to fall into two categories: contactless transactions processed when the wrong card was taken out of a purse / wallet; and Amazon accounts defaulting to the Council's card when the same Amazon account was used for both personal and Council-related transactions.
- 4.5.4 A reminder email had been sent by the FAM to cardholders that suggested that the possibility of setting up a corporate Amazon account was being considered. However, during discussions with the FAM it was suggested that this would add an additional layer of administration to the process with either orders having to be placed centrally, or multiple cards being set up against the account which would have generic access and the same inherent issues over ensuring the correct card was selected. It was, therefore, suggested that cardholders should set up separate Amazon accounts for personal and work purchases and this was to be raised via email.
- 4.5.5 Due to the way transactions are recorded on the transaction logs and, as a result, the transaction listings used for testing, analysis was not straightforward. Some suppliers are recorded in more than one format with the merchant types not being consistent. However, with those issues taken into account, analysis was undertaken on all transactions recorded between January 2016 and January 2018 (the latest available information at the start of the audit testing).
- 4.5.6 The total expenditure on the purchasing cards over this period was £265,243.98. Totals for each 'merchant' were calculated and a review was also undertaken to identify different merchant names for the same company (e.g. Airport Expr & Taxis Ltd and Airport Express & Taxi).
- 4.5.7 Once this information was compiled, analysis was performed on the expenditure with any supplier where the total spend was £1,000 or more. This covered 54 suppliers.
- 4.5.8 The largest total spend with any one supplier was £32,347.00 (accounting for 12.2% of the total) with HM Courts Service. This expenditure relates to court

costs for NNDR and Council Tax summonses, with all of the costs being put through on one card, held by the Principal Revenues Officer, which had been specifically set up for this.

- 4.5.9 Expenditure with Amazon totalled £22,855.23. This covered some 400 different lines of expenditure across all departments, although the main use was by Housing & Property Services (148 lines), Chief Executive's (144), and Cultural Services (109). (NB Due to the period covered, this does not take into account the split of the Housing & Property Services department.)
- 4.5.10 The purchases were ad-hoc and varied and the only obvious theme from the purchases was IT equipment and accessories mainly by the Chief Executive's department. However, as Amazon covers a number of different suppliers through its website with the ability to obtain different prices for each purchase, it is not felt that there is a need for a more formal procurement process in relation to this expenditure.
- 4.5.11 Another supplier that is used regularly is Sainsbury's (£12,876.53). The majority of the transactions are for supplies for The Space and this, again, is another specific purchase type that has been accepted. However, the PO advised that a different method of obtaining these items is being investigated.
- 4.5.12 Overall, the expenditure fell into eight general categories:
1. Accommodation
  2. Adverts
  3. IT device support & licenses
  4. IT hardware & equipment
  5. Professional memberships & training
  6. Supermarkets
  7. Train tickets
  8. Miscellaneous.

1. Accommodation

Expenditure with the ten highlighted accommodation providers totalled £20,597.17. Further analysis of the overall expenditure, i.e. including other relevant suppliers, increased the total expenditure on this category to £24,675.02. A review of TOTAL for the corresponding period only identified a further spend of £455.94 with one of the highlighted suppliers.

A query was raised with the PO to ascertain whether the Council could benefit from having a corporate account with one of the hotel chains. She highlighted that this would only be appropriate if the Council met a certain level of spend and there would need to be a split between temporary accommodation for tenants / homeless and other corporate use (e.g. accommodation related to course attendance).

Due to the level of information recorded against each transaction it was not possible in the time available for this audit to identify this split (e.g. some just state accommodation).

## **Risk**

**The Council may not be obtaining value for money in relation to its expenditure on accommodation.**

## **Recommendation**

**Purchasing card expenditure should be further analysed to ascertain whether the Council would meet the thresholds for receiving discounted rates with accommodation providers.**

### **2. Adverts**

46 payments totalling £2,040.60 had been made to Facebook for placing adverts. The Digital Content & Social Media Officer advised that these have mainly been for ad-hoc job vacancy adverts, although there would soon be a corporate Facebook account. He was unaware whether different rates could apply for regular use so agreed that this could be looked into.

### **3. IT device support & licenses**

There were six transactions with three suppliers that fell into this category (from the high value expenditure list). These were specific ad-hoc payments and were considered to be appropriate with no further procurement processes being required. Again, there was no expenditure on TOTAL with these suppliers during this period.

### **4. IT hardware & equipment**

These fell under two specific suppliers. Apple Online Store was used for some iPads and another minor purchase. The other purchases, with Cartridge Save, were for ink cartridges for printers not covered by the main printer contract. An examination of TOTAL did not identify any further expenditure with either supplier. No specific procurement processes were considered to be necessary for these although specific high value purchases were considered separately (see 4.5.16 below).

### **5. Professional memberships & training**

Payments had been made to ten organisations for professional memberships and training courses, totalling £21,547.59. A review of TOTAL highlighted a further £44,022.25 of expenditure with them. Due to the specific requirements of membership to certain bodies and courses being run by individual organisations, this type of expenditure is exempt from having to undertake formal procurement. This type of expenditure was also another specific reason for the cards being set up.

### **6. Supermarkets**

The expenditure across the three main supermarkets used totalled £15,802.73 and, as highlighted above, the majority of the transactions related to supplies for The Space. No further (relevant) expenditure with these suppliers was identified upon review of TOTAL.

One issue was highlighted, however, relating to transactions being described as 'refreshments for meetings' etc. This type of expenditure is not meant to be made via the cards and it is believed that a report on this subject is to be presented to SMT to get this formalised.

#### 7. Train tickets

£10,165.23 had been spent on the cards with five different suppliers. When expenditure with these suppliers from TOTAL is included, this increases to £22,904.45, with £12,556.32 being with Chiltern Railways. There is also some spend against Leamington Spa Station which may encompass tickets related to Chiltern Railways. As with accommodation providers, it is possible that the use of a corporate account could have benefits, so this should be investigated.

#### **Risk**

**The Council may not be obtaining value for money in relation to its expenditure on train travel.**

#### **Recommendation**

**Expenditure via purchasing cards and via TOTAL should be further analysed to ascertain whether the Council would meet the thresholds for receiving discounted rates with train companies.**

#### 8. Miscellaneous

As the category 'name' would suggest, there is no common theme to the expenditure with the other highlighted suppliers. The review did not highlight any specific suppliers where it is felt that formal procurement would be warranted.

- 4.5.13 As highlighted above, the purchasing cards are intended for 'low value' expenditure. However, there is no actual definition of 'low value' contained with the card agreement forms. Whilst the individual transaction limits are now a maximum of £1,000, there used to be a number of cards with a £500 limit, so purchases above this amount were reviewed.
- 4.5.14 During the period of review, there were 80 purchases of £500 or more made via the cards.
- 4.5.15 Fourteen of the top seventeen purchases relate to the court fees referred to above. As highlighted, the card had been specifically set up for this purpose. Similarly, there were a number of transactions related to course fees and professional organisation membership, and temporary accommodation which is covered above.
- 4.5.16 There were seven purchases of IT equipment. These were mainly iPads or other tablet devices, so the procurement arrangements for these were discussed the Desktop Services Manager and the PO. It was confirmed that these purchases were appropriate and were in line with the expected procurement processes for these types of items.

- 4.5.17 Another of these purchases related to mobile phones. This was queried with the FAM to ascertain whether these should have been procured via the mobile phone contract in place. He highlighted that these types of phones were not available under the contract at the time and a business case had been agreed for this purchase.
- 4.5.18 One specific purchase was queried with the cardholder due to the nature of the transaction (sponsorship payment via Just Giving). The Housing Support & Lifeline Manager advised that this sponsorship included some promotional activities for Lifeline and allowed for some tracking of a new GPS device that was to be sold. It was, therefore, considered to be an appropriate use of the card.
- 4.5.19 However, it was noted that in four instances there were two payments made to the same merchant on the same day, with the description being the same for each purchase. In each of these instances it has been confirmed that the payments were for the same item, with the payment put through in more than one transaction / on different cards, thereby circumventing the authorised limits in place.
- 4.5.20 Whilst it is acknowledged that transaction limits have been increased on all cards to (at least) £1,000, cardholders should be instructed that the transaction limits should be adhered to.

## **Risk**

**Purchases may be inappropriate.**

## **Recommendation**

**Cardholders should be instructed that transaction limits should be adhered to, with attempts to circumvent these limits being reported to senior managers.**

## **5 Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the use of Purchasing Cards are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

<b>Level of Assurance</b>	<b>Definition</b>
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.



- 5.3 A number of minor issues were, however, identified:
- An error had been made in one of the journals processed which resulted in a ledger code being undercharged, although this was addressed at the time of the audit.
  - No regular analysis of purchasing card expenditure is being undertaken.
  - Value for money may not be being attained in relation to accommodation and train travel costs.
  - Several instances were identified where multiple transactions were processed to circumvent approved transaction limits.

## 6 **Management Action**

- 6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr  
Audit and Risk Manager

**Action Plan**

**Internal Audit of Purchasing Cards – March 2018**

<b>Report Ref.</b>	<b>Recommendation</b>	<b>Risk</b>	<b>Risk Rating*</b>	<b>Responsible Officer(s)</b>	<b>Management Response</b>	<b>Target Date</b>
4.5.1	Regular analysis of purchasing cards usage should be undertaken.	Inappropriate procurement processes may not be identified.	Medium	Finance Administration Manager  Senior Procurement Business Partner	Regular analysis of card usage is undertaken to ensure compliance with the agreed procedures.  Consideration to be given how the currently available data can be further analysed ahead of the new Procurement Card system being produced.	On-going  30 June 2018
4.5.12	Purchasing card expenditure should be further analysed to ascertain whether the Council would meet the thresholds for receiving discounted rates with accommodation providers.	The Council may not be obtaining value for money in relation to its expenditure on accommodation.	Low	Finance Administration Manager  Senior Procurement Business Partner	A Procurement Card system is due to be produced in 2018/19 that will streamline the process and enable improved interrogation of the transactions.  Data to be analysed as part of forthcoming Spend Analysis.	30 September 2018  31 March 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.5.12	Expenditure via purchasing cards and via TOTAL should be further analysed to ascertain whether the Council would meet the thresholds for receiving discounted rates with train companies.	The Council may not be obtaining value for money in relation to its expenditure on train travel.	Low	Finance Administration Manager / Senior Procurement Business Partner	A Spend Analysis is due to be undertaken in-house in 2018/19. Whilst this will primarily be of the transactions within Total, the Purchasing Card data should be evaluated alongside this.	31 March 2019
4.5.20	Cardholders should be instructed that transaction limits should be adhered to, with attempts to circumvent these limits being reported to senior managers.	Purchases may be inappropriate.	Medium	Finance Administration Manager	This has been completed. An email has been sent to all cardholders and copied to SMT Plus to advise them of this requirement with an amended procedure document also being issued. The issue has also been highlighted to the FSTeam and they have been advised to notify the Finance Administration Manager if they notice any further instances.	Completed

\* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.