Argyll and Bute Council

Internal Audit Report

May 2018

FINAL

Purchasing Cards

Audit Opinion: Reasonable

|  | High | Medium | Low |
|---|---|---|---|
| Number of Findings | 0 | 3 | 3 |

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# 1. Executive Summary

## Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to purchasing cards.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

## Background

4. The Council uses purchasing cards for a wide range of purchases. The purchasing cards operate in a similar fashion to any type of bank card; they are unique to an individual with a personal PIN number. The cards can be set up for use in any shop or establishment that accept card payments.

5. The Council's card provider is NatWest and all purchase card transactions are recorded on Visa IntelliLink Spend Management System (IntelliLink). The Council went live with IntelliLink in late 2017.

6. There are approximately 170 purchase cards currently in circulation. The Council's creditors team is in the process of replacing existing imprest accounts with purchase cards where appropriate; meaning that the number of purchase cards in circulation is expected to increase.

7. The total value of purchase card expenditure in 2017/18 was in excess of £1.8 million; an increase of £0.5 million from 2016/17. The largest proportion of spend related to travel and subsistence booked through the Council's travel team.

8. There are no charges for using purchasing cards, with the exception of cash withdrawals. The bank currently offers an incentive scheme whereby a percentage is paid back to the Council based on expenditure through cards for the year. The rebate received last year for the period August 2016 – August 2017 was £4,422.

## Scope

9. The scope of the audit was to review the general control environment in relation to the access to and use of purchasing cards and the adequacy of controls in place to support the use and operation of IntelliLink as outlined in the terms of reference agreed with the Head of Customer and Support Services on the 4 May 2018.

10. As part of the audit approach a short survey was submitted to 168 cardholders which asked:

   - Are you aware of the procedure note/guidance in place in relation to the purchase card system?
   - Have you received training on the use of purchase cards and the purchase card system?

- Is the purchase card for your sole use or is your card shared with other individuals?
- Can you give a brief description on what type of goods/services you procure using the purchase card?
- Any further comments?

11. We received 70 responses (42% response rate) which helped inform the key audit findings.

### Audit Opinion

12. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

13. Our overall audit opinion for this audit is that we can take a **reasonable** level of assurance. This means that internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

### Key Findings

14. We have highlighted no high priority recommendations, three medium priority recommendations and three low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

- Standard operating procedures should be reviewed and updated to provide greater control over the application for and award of new purchase cards and the recovery of inappropriate expenditure.
- Requests for amendments to card restrictions should be subject to appropriate approval.
- Cardholders and approvers should be reminded that supporting documentation and valid VAT receipts (where appropriate) should be submitted to support expenditure.
- Cardholders should be reminded that purchase cards are not to be shared.
- Consideration should be given to creating a process to follow up on cardholders and /or approvers who are not following the coding/approval process on a regular basis.
- Cardholders should be reminded that purchase cards should only be used where other, potentially more cost effective, procurement methods are not available.

15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. Objectives and Summary Assessment

16. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

| | Control Objective | Assessment | Summary Conclusion |
|---|---|---|---|
| 1 | The Council has appropriate and accessible policies / procedures to support the use of purchase cards and the operation of IntelliLink. | Substantial | There are appropriate procedure documents which provide guidance on the use of IntelliLink. |
| 2 | Controls are in place in relation to the access, use and operation of purchase cards and IntelliLink. | Reasonable | There is no formal process in place to request and authorise a new cardholder request. Cardholders are requested to complete and return a user agreement form however these are not always completed and returned to Creditors. Requests for changes to card restrictions are requested by the cardholder and no further authorisation is required. Instances of card sharing were also identified. Transactions not approved by the nominated approver by the time of the monthly deadline need to be approved by the system administrator, across a three month period a total of 143 transactions were approved by the system administrator. |
| 3 | Financial and management controls are in place and operating effectively. | Reasonable | Based on sample testing only 73% of transactions in IntelliLink had back up attached to support expenditure incurred. Furthermore appropriate documentation to support transactions incurring VAT is not always provided. |
| 4 | Documentation and system data is complete, accurate and compliant with the data retention policy. | Substantial | Purchase information is held securely in IntelliLink which is only accessible using a personal username and password. Cardholder information is retained on a password protected file, which is only accessible by appropriate officers. |

17. Further details of our conclusions against each control objective can be found in Section 3 of this report.

## 3. Detailed Findings

**The Council has appropriate and accessible policies/procedures to support the use of purchase cards and the operation of IntelliLink.**

18. There are appropriate documented procedures to provide guidance on the operation of IntelliLink. These have been made available to cardholders and approvers.

19. Training sessions were delivered in July/August 2017 in Lochgilphead, Helensburgh, Campbeltown, Oban and Dunoon. All cardholders were made aware of the training and advised

to attend one of the sessions. Cardholders were also made aware that Lync training could be arranged on an individual basis for anyone unable to attend the training sessions.

20. 64% of cardholders who responded to the survey confirmed they had received training on the use of purchase cards and IntelliLink. There was also a 'further comments' box in the survey where a number of cardholders commented that; although they answered 'no' to the training question, they had received one to one training and the guidance and support offered by officers was effective and of a high quality.

21. Further training sessions are scheduled in July/August 2018 in Dunoon, Rothesay, Lochgilphead, Islay, Oban, Mull and Helensburgh for new cardholders and as a refresher for existing cardholders/approvers.

**Controls are in place in relation to the access, use and operation of purchase cards and IntelliLink.**

22. Requests for new cardholders are submitted to the Creditors Supervisor by departmental staff. There is no agreed protocol in place in to determine who can submit these requests and how they are submitted. Each card has an allocated approver on IntelliLink who is responsible for reviewing and approving the transactions processed by the cardholder. The approver is decided through discussions with departmental staff when the card is being set up. This process is not formalised.

**Action Plan 1**

23. Once a request is received bank forms are completed detailing transaction limits and merchant category restrictions for the card. Each card has an individual transaction limit, a cumulative monthly limit and there are 34 merchant categories that are either locked or unlocked. These limit the types of vendor that cards can be used to make purchases from. Completed bank forms are passed to the Head of Customer and Support Services for authorisation. Sample testing of 30 cardholders confirmed these controls are operating effectively.

24. Cardholders are required to complete a Purchasing Card Agreement form to confirm their acceptance of the terms and conditions regarding appropriate card use. Whilst agreement forms are issued with the purchase card they are often not completed and returned. User agreement forms could not be provided for any of a sample of ten selected for audit testing. It is recommended that the return of completed user agreement forms should be a mandatory step before purchase cards are issued to cardholders.

**Action Plan 1**

25. Guidance issued to cardholders' states that purchase cards should only be used for business purposes. Inappropriate expenditure should be identified by approvers when reviewing purchases made. If they identify inappropriate expenditure they are responsible for addressing this with the cardholder and recovering the expenditure. This responsibility, and the process to follow, is not incorporated in the procedure note issued to approvers.

**Action Plan 1**

26. After a card has been set up, if a cardholder requires a change to the approved financial limits or merchant categories, a request is submitted by the cardholder on a standard form. This form is not subject to authorisation nor is it retained by Creditors.

**Action Plan 2**

27. Purchase cards are intended for sole use only. This is clearly set out in guidance issued to cardholders which states "*It is also important to note that each cardholder is responsible for all purchases made with their card and therefore if other members of staff are required to make card purchases they should obtain their own card.*" In response to the survey issued 17 (24%) of cardholders confirmed their card is shared with other individuals.

**Action Plan 4**

28. It is the responsibility of cardholders and approvers to access IntelliLink on a regular basis to review, code and approve transactions. A timetable is issued to the cardholders and approvers setting out the monthly deadlines for this to be completed. Reminders of these deadlines are issued to cardholders and approvers on a monthly basis. Individual reminders are also issued to cardholders and/or approvers where transactions are outstanding on IntelliLink. After the deadline has passed, the system administrator has to approve outstanding transactions in order for the transactions to transfer to the Council's general ledger system. When transactions are approved by the systems administrator the expenditure is charged to the default general ledger code associated with that card. This process may lead to inappropriate expenditure being authorised and transactions being charged to an incorrect ledger code.  The table below details an analysis of three monthly transaction reports to assess the volume of transactions that were approved by the system administrator.

| Month | No of transactions approved by Admin | % of overall transactions | Value of transactions approved by Admin |
|---|---|---|---|
| February | 38 | 3% | £7,154.17 |
| March | 94 | 6% | £6,016.72 |
| April | 11 | 1% | £207.19 |

**Action Plan 5**

29. Access to IntelliLink is granted via an individual username and password with passwords needing to be changed approximately every 90 days.  Transactions within the system are categorised per cardholder, so it is clearly identifiable whose card the purchase has been made with. System reports are available which detail the relevant cardholder, the approver of the transaction and other details such as cost, description and date.

30. There is an intention to replace the imprest accounts held by various council establishments with purchase cards. In some instances, it may be an operational requirement for users to use the cards to withdraw a sum of money from an ATM (e.g. for life skills in school and welfare payments by Social Work).  In principle, we have no objection to this proposal as long as appropriate procedures and a control framework are established. There are bank charges associated with cash withdrawals so consideration should be given to a cost/benefit analysis of this proposal before it is implemented. Internal Audit would be available to provide support and guidance to officers to identify appropriate controls.

**Financial and management controls are in place and operating effectively.**

31. There is a three way monthly reconciliation to agree the total expenditure as per IntelliLink to the bank statement and the general ledger. This reconciliation is completed then submitted to the Head of Customer and Support Services for review and approval.  The monthly charge is paid after this approval is obtained.

32. Both the cardholder and approver documented procedures clearly set out the requirement for cardholders to submit a valid VAT invoice/receipt for all transactions where VAT has been applied. More widely cardholders have been requested to attach receipts, where possible, for all transactions, but for vatable purchases at a minimum.

33. A sample of 30 transactions coded at standard rate VAT (20%) were tested to ensure that a valid VAT invoice/receipt was attached. 28 out of the 30 had back up attached however six of the 28 receipts were not valid VAT invoices/receipts as per HMRC requirements. Creditors were made aware of this issue as soon as it was identified and have issued an email to all cardholders/ approvers to remind them of the importance of submitting valid VAT back up for transactions subject to VAT.

34. Three IntelliLink monthly transaction reports were reviewed to determine the percentage of transactions that had a receipt attached. This concluded that, on average, receipts are only submitted for 73% of transactions.

**Action Plan 3**

35. The survey carried out identified a number of possible areas where purchase cards were being used to purchase goods that could potentially be procured in a more cost effective manner. Examples being accommodation and travel which should be booked by the Council travel team, large goods (such as white goods) which should be purchased via the PECOS purchasing system or staff subsistence which should be reclaimed using the Council's existing expenses procedures.

**Action Plan 6**

**Documentation and system data is complete, accurate and compliant with the data retention policy.**

36. Purchase information is held securely in IntelliLink which is only accessible using a personal username and password. Cardholder information is retained on a password protected file, which is only accessible by appropriate officers.

## Appendix 1 – Action Plan

| | No. | Finding | Risk | Agreed Action | Responsibility / Due Date |
|---|---|---|---|---|---|
| Medium | 1 | **Standard Operating Procedures**<br><br>A review of current processes and procedures highlighted the following control weaknesses:<br><br>• No process in place for the submission of new cardholder requests or the nomination of an approver.<br>• User agreement forms are not always completed and returned prior to purchase cards being issued.<br>• No process in place to manage the recovery of expenditure from cardholders who have made inappropriate purchases. | Inappropriate use of purchase cards may occur with limited capacity to recover expenditure on unauthorised transactions. | Current practice will be reviewed and updated to provide greater control over the application for and award of new purchase cards and the recovery of inappropriate expenditure. | *Creditors Supervisor*<br><br>*30 June 2018* |
| Medium | 2 | **Authorisation of Changes to Card Restrictions**<br><br>Requests for changes to merchant categories and/or financial limits are submitted by cardholders on a standard form. The form does not require to be authorised by the nominated approver and the forms are not retained by Creditors. | There may be inappropriate changes to card restrictions, credit limits and a lack of audit trail. | Permanent change forms will require authorisation from the relevant approver. | *Creditors Supervisor*<br><br>*30 June 2018* |

| | No. | Finding | Risk | Agreed Action | Responsibility / Due Date |
|---|---|---|---|---|---|
| **Medium** | 3 | **Invoices/Receipts to Support Expenditure**<br><br>Based on sample testing of expenditure transactions:<br><br>• 27% of transactions in IntelliLink had no appropriate supporting documentation to evidence expenditure<br>• 26% transactions coded as standard rated VAT did not have a valid VAT invoice or receipt attached. | Inappropriate transactions may not be highlighted by approvers and the Council may incur VAT fine or penalties. | Monthly sample testing will be carried out by the system admin to ensure valid VAT invoices are attached to transactions subject to VAT. Cardholders and approvers will also be reminded at scheduled training that receipts should be attached wherever possible. | *Creditors Supervisor*<br><br>*31 August 2018* |
| **Low** | 4 | **Purchase Card Sharing**<br><br>Although guidance advises cardholders that cards are for sole use only 24% cardholders have indicated they share their cards with work colleagues. | Inappropriate use of purchase cards may occur with limited capacity to recover expenditure on unauthorised transactions. | Creditors supervisor will remind cardholders at scheduled training sessions that under no circumstances should cards be shared. | *Creditors Supervisor*<br><br>*31 August 2018* |
| **Low** | 5 | **Administrator Approval of Transactions**<br><br>Transactions not approved by the nominated approver by the time of the monthly deadline need to be approved by the system administrator. In this event the expenditure is approved and charged to the default general ledger code associated with that card. This may lead to inappropriate expenditure being authorised and transactions being charged to an incorrect ledger code. | Inappropriate expenditure may be authorised and expenditure may be charged to the wrong general ledger code | Management will consider implementing a process to follow up on cardholders and/or approvers who are not following the coding/ approval process on a regular basis. | *Creditors Supervisor*<br><br>*31 August 2018* |

| | No. | Finding | Risk | Agreed Action | Responsibility / Due Date |
|---|---|---|---|---|---|
| **Low** | 6 | **Nature of Spend**<br><br>Survey responses indicated that some cardholders are using their purchase cards where other procurement methods are available which may be able to source more competitive prices. | The Council may not achieve best value for purchases. | Creditors supervisor will remind cardholders and approvers of the types of spend that are appropriate through a purchase card at scheduled training sessions. | *Creditors Supervisor*<br><br>*31 August 2018* |

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained.  The definitions of each classification are as follows:

| Grading | Definition |
|---------|------------|
| High | A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error. |
| Medium | Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken. |
| Low | Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives. |

## Appendix 2 – Audit Opinion

| Level of Assurance | Definition |
|---|---|
| **High** | Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently. |
| **Substantial** | Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale. |
| **Reasonable** | Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk. |
| **Limited** | Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised. |
| **No Assurance** | Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues. |