

Argyll and Bute Council  
Internal Audit Report  
February 2022  
FINAL

# Purchasing Cards

Audit Opinion: Reasonable

	High	Medium	Low	VFM
Number of Findings	2	4	0	1

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## 1. Executive Summary

### Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, 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. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
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. All purchasing must take place in accordance with the Council's statutory duty to secure best value under the Local Government in (Scotland) Act 2003.
5. Public procurement is the process by which public bodies acquire goods, services and works from third parties to meet customer and service user needs. Procurement covers all activities from identification of a requirement to spend to the receipt of goods or services.
6. Effective procurement arrangements can make significant contributions to a wide range of Council objectives including a successful local economy, a thriving voluntary sector, community involvement and environmental issues as well as delivering value for money.
7. The Council uses purchasing cards for a wide range of purchases. They operate in a similar manner to any type of bank card, are unique to an individual and a personal PIN number is provided.
8. The Council has approximately 180 purchasing cards in circulation. The total value of purchase card expenditure in 2020/21 was in excess of £1.6 million; a decrease of £0.5 million from 2019/20. The management and administration of purchase cards is the responsibility of the creditors department.
9. The Council's current card provider is NatWest, however the Council is currently in the process of transferring the service to the Royal Bank of Scotland (RBS) with a completion date expected in November 2021.

### Audit Scope

10. The scope of the audit is to review purchase card procedures and spend to assess compliance with the Procurement Manual and the achievement of Best Value.

## Risks

11. The risks considered throughout the audit were:
- **Audit Risk 1:** Failure to ensure key system, financial and management controls are in place and operating effectively
  - **Audit Risk 2:** Failure to ensure all expenditure has been incurred in compliance with agreed procurement procedures
  - **Audit Risk 3:** Failure to achieve best value through the procurement process

## 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 areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.

## Recommendations

14. We have highlighted two high priority recommendations, four medium priority recommendations and one value for money recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- purchase card guidelines should be reviewed and circulated to all purchase card holders
  - the purchase card application process should be reviewed and records maintained to evidence compliance with the process
  - support should be provided to the creditor's support officer to ensure business continuity
  - cardholder agreement forms should be signed prior to the issuing of purchase cards
  - department budget holders or approvers should approve their transactions
  - cardholders should be provided with procurement training
  - procurement should be provided with more detailed reports on purchase card expenditure.
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

	<b>Control Objective</b>	<b>Link to Risk</b>	<b>Assessment</b>	<b>Summary Conclusion</b>
1	Policies/procedures in relation to purchasing cards exist and are complied with.	Audit Risk 1 Audit Risk 2	Reasonable	There is a procedure note to provide guidance on use of purchase cards, it no longer reflects current work practice and is no longer circulated. However, the creditors' team have provided comprehensive training and telephone support to purchase card holders in the use of purchase cards. Processing, maintenance and administration of purchase cards takes a considerable amount of creditors' staff time. Records were found to be incomplete, however, creditors' staff maintain a comprehensive spreadsheet detailing cards in use. The creditors' team approve transactions for catering staff, the procurement team and any outstanding departmental transactions in order to ensure the direct debit to the bank is cleared.
2	Purchasing card expenditure complies with the Council's Procurement Manual and achieves best value.	Audit Risk 2 Audit Risk 3	Limited	The majority of purchase card transactions fall within the procurement threshold of £0 - £999 for which there is limited guidance available. There is currently no requirement to record purchase card transactions on PECOS and purchase card reports are not provided to the procurement team therefore it is difficult to establish the full extent to which best value is being achieved.

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

### 3. Detailed Findings

#### Policies/procedures in relation to purchasing cards exist and are complied with

18. Processes are in place to ensure that purchase cards are issued to appropriate staff. The application process is a two stage process consisting of an initial internal request, which requires to be signed by either the Head of Service or Budget Holder and an external bank application. Each internal application identifies an officer who will approve all transactions. A processing guide for creditors' staff is available.

19. The application process includes the requirement to:

- complete purchasing card request forms
- budget holder approval
- complete bank application forms
- completion of purchasing card agreement forms
- agree purchase cardholder limits.

20. A procedure note 'Purchase Card Guidelines for Cardholders and Approvers', dated 2018, is available. The procedure note does not reflect current work practice and is no longer circulated for use, however this is currently in the process of being updated.

#### **Action Plan 1**

21. The processing of purchase card applications, maintenance and administration of purchase cards take a considerable amount of Creditors' staff time. Staff within creditors have developed a range of standard template emails and guidance documents for the operation of the purchase card banking systems and provide telephone training and support to all purchase card users.

22. A random sample of 10 purchase card applications (5%) highlighted that out of the ten applications:

- only two had completed purchasing card request forms
- only two had received budget holder approval
- bank application forms had been obtained for nine
- only five had purchasing signed card agreement forms
- only seven of the purchase cardholder limits agreed with the bank application form.

It was noted that the records selected were historical and that the processes and procedures have since been strengthened. Records are maintained manually and saved in paper files.

#### **Action Plan 2**

23. The migration from NatWest to RBS purchase cards is nearly complete, and the Support Officer in the Council's Creditors team has issued an email to all card holders reminding them to sign and return the purchasing card agreement form.

24. The Support Officer is responsible for the administration and management of purchase cards. There is currently no backup for this officer meaning there is limited resilience within the Creditors team if they were absent from work for an extended period. This is currently being reviewed.

#### **Action Plan 3**

25. A comprehensive spreadsheet is maintained detailing purchase cards in use. It provides details of card limits, categories of spend, the start and expiry date of the cards, when cards have been issued, cancelled or are no longer required. This is updated on a regular basis.

26. Prior to receiving their purchase card, cardholders are required to sign a purchase cardholder agreement form which outlines the terms and conditions of use. This should also be signed by the appropriate line manager or budget holder. This is not being complied with as purchasing cardholder agreement forms were issued to cardholders at the same time they receive their purchase card.

**Action Plan 4**

27. It is the responsibility of the cardholder, the approver and the department to ensure that the card is appropriately used. The banking system requires that every transaction is authorised by the approver and receipts must be uploaded. A delegate can be set up on the banking system to ensure continuity in the absence of the cardholder and approver.
28. All transactions for the current statement period are reviewed and approved prior to the direct debit being taken each month. To facilitate this creditors staff have the functionality to review and/or approve any transaction and additionally they are the nominated approver for:
- all 65 Council catering cards which use a unique number and are linked directly to approved suppliers
  - cards which are held by the Council's purchasing team, who normally action requests raised by departments which have been pre-authorised by the budget holder.
29. Monthly review reports are run by the creditors' team which detail the status of all purchase card transactions and a reminder is sent to approvers to complete all outstanding transactions. Any outstanding transactions will be approved by the creditors' team in order to ensure the direct debit to the bank is cleared.
30. Purchase card transaction reports were reviewed for May, June and July for RBS and NatWest, this highlighted the considerable support provided by creditors' staff. The table below outlines the volume of transactions approved by the creditors' team.

<b>Breakdown of transactions approved by Creditors</b>						
	Total PCARD transactions	TOTAL Creditors Approved	% of Total Transactions Approved by Creditors	Creditors approved for Purchase Team	Creditors approved for Catering	Creditors approved for Other Departments
<b>May</b>	923	402	44%	84	229	89
<b>June</b>	1398	940	67%	337	438	165
<b>July</b>	1354	769	57%	185	310	274

**Action Plan 5**

[Purchasing card expenditure complies with the Council's Procurement Manual and achieves best value](#)

31. The majority of purchase card transactions fall within the procurement threshold of £0 - £999 for which there is limited guidance available. Forty five purchase cardholders (25%) were invited to take part in a survey, with twenty nine responses received. Their responses highlighted that:
- eleven (38%) have been provided with a copy of or access to the procurement manual
  - fourteen (48%) have been provided with procurement training
  - eleven (38%) were aware of what the thresholds and processes are within the procurement manual and how they apply to the goods/services they procure
  - fifteen (52%) record purchase card transactions on PECOS
  - seventeen (59%) use PECOS, approved suppliers or internet price comparisons prior to incurring spend.

**Action Plan 6**

32. Limitations on the ability to analysis purchase card expenditure restricted the extent to which conclusions can be drawn on whether purchasing card activity was delivering best value however the lack of awareness of, and compliance with, established purchasing processes suggests savings may be generated through more efficient purchasing.
33. The creditors' team currently provide the procurement team with total monthly spend figures on purchase cards, however this does not provided a breakdown or detail of the transactions.

**Action Plan 7**



## Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p><b>Purchasing card procedures</b></p> <p>A procedure note ‘Purchase Card Guidelines for Cardholders and Approvers’, dated 2018, is available. However, this does not reflect current work practices and is no longer circulated.</p>	Existing card holders may not be aware of the current processes and procedures.	New written up to date procedure notes have been produced and emailed to all existing cardholders and approvers, copy provided.	<p>Creditors Support Officer</p> <p>Completed</p>
High	2	<p><b>Purchase card application process</b></p> <p>The purchase card application process is manually intensive and requires a considerable amount of creditors’ time supporting staff. A random sample of 10 purchase card applications also highlighted challenges in locating purchase card application records as historical records are maintained manually therefore records may not have been readily available for audit.</p>	Purchase card application and authorisation records may not be readily accessible.	<p>The sample taken was historical and I am satisfied that the vast majority of application records over the past couple of years are complete. Any missing records over this period will be obtained.</p> <p>Additionally as part of the migration process from NatWest to RBS process all cardholders have signed and returned the Cardholder Agreements.</p> <p>Going forward, any new applications will be stored electronically.</p>	<p>Creditors Support Officer</p> <p>31 December 2022</p>

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	3	<p><b>Resilience within Creditors</b></p> <p>The Support Officer is responsible for the administration and management of purchase cards. There is currently no backup for this officer meaning there is limited resilience within the Creditors team if they were absent from work for an extended period.</p>	The Council may not have plans in place to ensure continued delivery of service.	Full Administrator notes, including screen shots, have been formalised and made available to staff. Staff training has been provided using a combination of 1-1 guidance and the Administrator notes. This ensures proper cover is now in place.	Creditors Support Officer  Completed
Medium	4	<p><b>Agreement Forms</b></p> <p>Purchasing Cardholder Agreement Forms are issued to cardholders at the same time they receive their purchase card.</p>	Card holder agreement forms may not be returned.	The card issue procedure has now been changed to issue card holder agreement forms at an earlier stage in the process and cards will not be issued unless the agreement form is received. As part of the migration to RBS process all cardholders have signed and returned the Cardholder Agreements.	Creditors Support Officer  Completed

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	5	<p><b>Inappropriate authorisation of transactions</b></p> <p>The Support Officer in the creditors' team approves a considerable number of pre-authorised transactions for catering staff and procurement staff. Furthermore creditors will also approve any outstanding transactions for other departments to ensure that the bank direct debit is completed within agreed timeframes.</p>	Lack of knowledge of appropriateness of purchase card spend.	The wording of the current monthly email to cardholders and approvers will be updated to remind them of their responsibilities. Once available, a one page procurement guide will be issued to all purchase card holders and approvers.	Creditors Supervisor/ Creditors Support Officer  30 June 2022
Medium	6	<p><b>Procurement procedures</b></p> <p>Forty five purchase cardholders (25%) were invited to take part in a survey, with twenty nine responses received. The responses received highlighted a general lack of awareness of procurement procedures.</p>	Lack of knowledge of procurement procedures and the requirement to achieve best value.	A review of the guidance for spend within the lowest threshold of £0-£999 will be undertaken and a one page procurement guide will be produced for issue to all purchase card holders and approvers.	Category Management Officer Procurement & Contract Management Team  30 June 2022

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
VFM	7	<p><b>Purchase card use reporting</b></p> <p>The Support Officer in the creditors team currently provides the procurement team with the total monthly spend figures, however this does not provide include breakdown or detail of the transactions.</p>	<p>Purchase card spend may not be subject to appropriate monitoring with best value not being achieved.</p>	<p>On a monthly basis creditors' staff will email the PECOS Team with a copy of the Review and Approve Report which provides a breakdown of the Purchase Card transactions for them to review.</p>	<p>Creditors Support Officer</p> <p>31 March 2022</p>

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
<b>High</b>	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.
<b>Medium</b>	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.
<b>Low</b>	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.
<b>VFM</b>	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	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.
<b>Substantial</b>	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.
<b>Reasonable</b>	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
<b>Limited</b>	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.
<b>No Assurance</b>	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.