

FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT

REVIEW OF PURCHASING CARD AUDIT FOR 2014-15

Issued to: Dave Starling, Head of Corporate Procurement
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Prepared by: Principal Auditor

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Report No.: CX/055/02/2014

REVIEW OF PURCHASING CARD AUDIT FOR 2014-15

INTRODUCTION

1. This report sets out the results of our systems based audit of Purchasing Card Audit for 2014-15. The audit was carried out in quarter Q1 as part of the programmed work specified in the 2014-15 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on The period covered by this report is from 1st April 2013 to 1st April 2014.
4. In 2013-14 a total of £337436.13 of expenditure was made using purchase cards in 5285 transactions. 68 Cards are held by former CYP, 27 by Environment, 16 by former ACS, 7 each for Resources and Regeneration, 5 for Legal and Democratic Services and one for the Chief Executives.

AUDIT SCOPE

5. The scope of the audit is detailed in the Terms of Reference.

AUDIT OPINION

6. Overall, the conclusion of this audit was that Limited Assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

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7. Section 8.34 of Financial Procedures states that Purchasing Cardholder Procedures must be complied with as applicable, whilst Section 1.5 of the Financial Regulations requires that Each Chief Officer is responsible for ensuring that these Regulations are strictly adhered to, throughout the department under their control. The responsibility for the approval and monitoring of transactions and all types of expenditure is entirely delegated to Managers. Corporate Procurement carry out training for new card holders whilst, basic administration is carried out by the Finance Officer, Exchequer Services. A business case is created for all card holders and approved by the relevant Manager and Line Manager. It is the relevant Line Manager's responsibility to monitor all transactions to ensure they comply with Financial Regulations and Contract Procedures Rules and to inform Exchequer services if the person is leaving and to hand back the purchase card..
8. All issues identified in this report are covered by stated requirements within Financial Regulations/Procedures (FP's), Contract Procedure Rules and Purchase Card Holder Procedures.(PCHP). All Card users and Approvers receive training on receipt of their Cards on the requirements of the PCHP's. Managers have also been required to identify and nominate staff involved in Finance/Procurement activity to undertake a specific IT based training package on Financial Procedures and Contract Procedure Rules (CPR's). All documents referred to are available and included on "One Bromley.
9. Controls were in place and working well in the areas of:
 - Requirements have been put in place to ensure staff are only given a purchase card once they have undertaken the Purchase Card training and have activated their MiVision account.
 - Staff are only issued a card upon the approval of their Manager, Head of Finance and Internal Audit.
 - Reconciliation of MiVision transactions to HSBC invoices is regularly undertaken.
 - Adequate controls are in place to prevent card holders spending over predetermined limits and allocating expenditure to the correct cost centres.
10. However we would like to draw to Managements attention the following issues:
 - Controls are insufficient to prevent staff leaving without returning their purchase cards
 - Some card Holders and Approvers who have been set up for over 2 years are not aware of the current procedures
 - A number of Staff are being issued a purchase card who have not undertaken Financial Regulations or Contract Procedure Rules training.

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- Transactions are being coded to the wrong subjective code.
- Cards have been issued with little or no use being made of them, although some of these are for emergency control purposes.
- Contract Procedure Rules and Purchase Card Procedures state staff are not to split transactions, however there are no actual controls in place to prevent card holders from splitting transactions across two cards.
- Management are not ensuring that card holders are promptly processing transactions
- Instances have been identified where sections and staff are sharing cards
- Departments are not retaining receipts and invoices as required.
- Expenditure is being made which is not in compliance with Financial Regulations/Procedures and CPR's and which there are not specific business needs.
- VAT is not being claimed in several instances at a cost to this authority.

SIGNIFICANT FINDINGS (PRIORITY 1)

11. Three significant findings were identified. One Significant Finding was : Examination of all the transactions for February 2014 found that VAT had not been accounted for 110 of the 424 transactions that took place. It was calculated by the Auditor that although £590.70 of VAT was accounted for, £1121.1 was not, where it could have been.

Testing of a sample of 25 transactions found that in seven instances, VAT was not accounted for. Three of these transactions actually stated the amount of VAT on the receipt, but was not input. In the other 4 instances a VAT receipt or invoice was not received or kept. In 4 instances no copy of the receipt or invoice was provided.

12. The second significant finding was that it was identified that 4 card holders have not retained copies of their receipts as requested by the procedure (covering 22 transactions) documents. It is thus not possible to accurately determine if expenditure incurred was for a business need and if VAT had been correctly accounted for.
13. The final significant finding was that of the transactions that were made between 1/04/13 to 31/03/14 it was found that on numerous occasions transactions had been made to the same supplier on the same day. In 8 instances the spend with the

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supplier has been more than £500 and for 4 of these it is apparent that a spend over £500 has been split across 2 cards. Specific requirements are included within the CPR's, PCHP's and Financial Procedures and Regulations on all of these matters.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

14. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

15. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>The list of all purchase card holders at 25/04/14 was obtained and a list of all leavers from the authority from 01/01/13 to 30/04/14. The two lists were matched, to determine if any leavers of the authority still had a purchase card and it was found that 4 former employees still had an active card. Usage was checked and it was found that one card had been used after the leaving date. On subsequent investigation it was found this member of staff had been taken on as a temporary employee, in the same position she had previously had.</p> <p>During the audit it also came to light that another former member of staff who had a purchase card, had left the authority to move to Liberata and still had an active purchase card. This was cancelled. There is a planned 2014/15 audit of procedures for leavers , however hand back of purchase cards has been identified in this audit as an issue and should be addressed in this report.</p>	<p>Leavers of the authority could still continue to use their purchase card.</p>	<p>Controls should be put in place to ensure staff , who are leaving the Authority, do not leave with an active purchase card. [Priority 2]</p>
2	<p>A report has been run for all transactions for 2013-14 which highlighted those transactions which have not been approved by the Manager. It was identified that there are 2 transactions (totalling £226.76) which have not been approved by a Manager after one year. There are 24 transactions which</p>	<p>Cardholders and Approvers might make expenditure that does not comply with financial regulations</p>	<p>Staff should be offered refresher training or a reminder about updates to procedures should be sent to cardholders and</p>

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Identification of suggested areas for improvement

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	<p>remain unapproved after 3 months (£1661.50) and 128 transactions awaiting approval over a month (£17738.67).</p> <p>An email sent to all purchase card holders and Approvers on the 25/06/14 advising them of updates to the Purchase Card Procedures and requirement of what must now take place.</p>		<p>approvers [Priority 3]</p>
3	<p>Testing of a sample of 10 new cardholders and 10 existing card holders found that all had passed their probation period, except one (though this member of staff had been an employee at Bromley for 8 years). Further testing however found that 8 had not completed either Fin Regs or CPR course, 6 had only passed the Fin Regs course and 1 had only passed the CPR course.</p> <p>Have identified that of the 132 members of staff who have a purchase card, 76 haven't passed CPR course and 52 haven't passed Fin Regs course. A list of officers in this category will be provided on acceptance of this recommendation.</p>	<p>Staff may make purchase that are not compliant with Financial Regulations or Contract Procedures.</p>	<p>Staff who are issued a purchase card should have to undertake the interactive Financial Regulations and Contract Procedure Rules Training. [Priority 2]</p>
4	<p>Testing of a sample of 25 transactions found that of the 22 that have been approved, 7 had not been coded to the correct subjective, including a rent deposit and purchase of two</p>	<p>Accurate budget monitoring won't be able to be carried out due to incorrectly coded</p>	<p>Staff should be reminded to code transactions to the correct subjective</p>

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	keyboards that were coded as staff travelling expenditure.	transactions.	code. [Priority 2]
5	It was identified that 21 cards which were still active, have had no expenditure in 2013/14 (four of these are held for emergency control reasons). It was also found that 11 cards have had less than 10 transactions in the year and a total of less than £500 of expenditure and 3 cards where less than 10 transactions have taken place, but more than £500 expenditure has been made. Twenty six cards have only had between 10 and 20 transactions in the year.	All cards are at risk of being cloned or stolen. The greater the number of cards, the greater the risk this could happen.	Management should review those cards that have been issued to staff with little or no use. [Priority 2]
6	Testing of the transactions that were made from 1/04/13 to 31/03/14 found that on numerous occasions transactions had been made to the same supplier on the same day. In 8 instances the spend with the supplier has been more than £500 and for 4 of these it is apparent that a spend over £500 has been split across 2 cards. This is a direct breach of Contract Procedure Rules sections 1.2 and 8.1.3, where sections break work up into smaller packages, to get under authorisation thresholds and therefore a direct breach of Financial Regulations.	Expenditure is incurred that doesn't comply with Financial Regulations & Contract Procedure Rules	Staff with purchase cards cannot split transactions across two or more purchase cards to avoid having to seek authorisation procedures. If this occurs then withdrawal of the card should be actioned. [Priority 1]

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7	<p>It was identified that on the 25/04/14 there were 174 transactions (£17738.67) that had not been processed by the card holder within one month, 71 of which were over 3months (£9329.82) and 11 over a year old (£764.09). Those over 3 months include one payment to Curry's for £477.99, seven to Argos of £319, £444.99, £429.99, £238.99, £708.93, £338.93 and £1013.49.</p> <p>It was also found that 128 were awaiting approval by the Approver for over one month (£7849.03), 24 of which were over 3months (£1661.50) and 2 over one year (both transactions are for members of staff who have now left £226.76). Those over 3months include one transaction of £240.72 to Falconbury and three payments to Amazon of £108.21, £161.94 and £176.41.</p> <p>It was discussed with the Finance Officer that a reminder is sent out on a monthly basis to cardholders and approvers to remind them of transactions that are awaiting approval. However due to a change in HSBC software this had not been received for 3 months. This issue is now being resolved.</p>	<p>Inappropriate expenditure might be incurred by cardholders.</p>	<p>Immediate action to be taken by managers to approve outstanding transactions on MiVision on a timely basis and to continue to do so.</p> <p>Purchase cards should be removed from departments where transactions are not processed or approved within 3months. [Priority 2]</p>
8	<p>Examination of all the transactions for February 2014 found</p>	<p>VAT may not be correctly</p>	<p>Staff should be reminded</p>

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	<p>that VAT had not been accounted for 110 of the 424 transactions that took place. It was calculated by the Auditor that although £590.70 of VAT was accounted for £1121.1 was not, where it could have been. Purchase cards were first used in June 2009 and the total amount spent at March 2014 is £1,106,038.07, through purchase cards. Unclaimed VAT could be significant over the period based on the one month's findings.</p>	<p>accounted for leading to a loss of funds for the authority.</p>	<p>of the requirement to request proper VAT invoices and receipts. They should also be reminded of the requirement to reclaim VAT on transactions where eligible. Non compliance with this requirement should result in withdrawal of the card.</p> <p>Where possible a back dated claim is made to recover VAT if receipts are available. [Priority 1]</p>
9	<p>The Purchase Card procedures clearly state that cardholders are not to share their card with anyone else. Despite this it was identified that one card was being shared around by a section in direct violation of procedures. The card was held by the Officer (A), who acknowledged that others in her department</p>	<p>Cards could be used by staff who aren't the card holder for fraudulent expenditure.</p>	<p>Card Holders and Approvers should be reminded that cards are issued to individuals and are to be utilised by them</p>

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	<p>were using the card for internet transactions. Following discussions with Procurement a reminder was sent to all purchase card holders reminding them not to share the card.</p> <p>Subsequently an email was received from Officer (B) requesting her card be cancelled as this had also taken place with her card.</p>		<p>only. [Priority 2]</p>
10	<p>70 requests for receipts were made to cardholders. As per the procedure documents, cardholders are to keep receipts they are requested to provide them. However receipts were not provided from 4 approvers (in total 22 transactions). Three of the approvers have stated that they have either lost or binned the receipt. Procurement have changed the procedure and have now requested that all staff scan receipts and attach them to transactions on MiVision. It is therefore not possible to audit some of this expenditure and is a direct breach of Financial Procedures section 4.15, which states accounting records should be maintained in safe custody for a minimum of six year.</p>	<p>Insufficient accounting records aren't retained, meaning there is insufficient accountability and records for accounting purposes. Inability to claim VAT</p>	<p>Procedures should be amended to insure all invoices and receipts are scanned and attached to MiVision. If not possible they must be retained for at least 6 years. Non-compliance will result in withdrawal of the card. [Priority 1]</p>
11	<p>Testing of a sample of 25 transactions made on the purchase card found 2 instances where transactions have been made, where the expenditure is queried on the basis of whether it is</p>	<p>Expenditure is made that doesn't comply with Financial Regulations and</p>	<p>Cardholders and approvers should be reminded of the</p>

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	for business purposes . One transaction was for the payment of an individual’s membership fees to a professional body (£114), one was for the deposit for a team lunch (£50).	doesn't show sufficient VFM or for a valid business purpose.	requirements of financial regulations. If there is no satisfactory explanation appropriate action should be taken to recover the monies and warn the cardholder. [Priority 2]

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	Controls should be put in place to ensure staff do not leave with an active purchase card.	2	<p>Procurement comment: As identified, prime responsibility for action rests with managers., However, the issues highlights other areas of concern around "Leavers" - for instance - asset and data access & security, return and/or repayment for equipment and of loans etc. A secondary control would require HR to circulate or provide access to) a weekly" Leavers" list to named officers with responsibilities in the above area.</p> <p>If this was done the Finance Officer who supports the Purchase Card System would be able to take prompt action in disabling the cards and alerting management to any outstanding requirements.</p>	<p>Managers – Prime responsibility.</p> <p>Directors/ Heads of Service - Any initial none Notification and follow up.</p>	Immediately

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Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			HR to be consulted about making this list available to the Finance Officer.		
2	Staff should be offered refresher training or a reminder about updates to procedures should be sent to cardholders and approvers.	3	Users and their managers are regularly updated on any changes to procedures, which are hosted and accessible on Bromley Knowledge. Amendments on all current issues have already been completed and a "Heavy" "News Flash" update will be issued on the Audit findings to further highlight findings and their requirements / responsibilities. The opportunity for refresher training is always available and will be further covered in the update.	Head of Corporate Procurement	31 July 2014
3	Staff who are issued a purchase card should have to undertake the	2	All managers were requested to identify and nominate for this	Prime Responsibility - Directors/Manager	30th Septemb

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	interactive Financial Regulations and Contract Procedure Rules Training.		training all staff involved in Financial/Contracting activity . This will be drawn to their attention again and any staff or managers not completing within 3 Months will have their card withdrawn	Corporate Procurement (CPR's) and Audit FR's) to monitor and take action as necessary	er 2014
4	Staff should be reminded to code transactions to the correct subjective code.	2	This is a responsibility for Budget Holders and Approvers. Will include need in News Flash	Approvers/Budget Holders Head of Corporate Procurement	31st July 2014
5	Management should consider reviewing those cards that have been issued to staff with little or no use.	2	List will be provided to Management for them to respond.	Directors/Managers List to be provided by Card Administrator/ Corporate Procurement	31 st July 2014
6	Staff with purchase cards cannot split transactions across two or	1	Control Process will require analysis to be provided by FN from	Directors/Managers	31 st July 2014

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	more purchase cards to avoid FR/CPR requirements authorisation procedures. If this occurs then withdrawal of the card should be actioned.		PCard data – suggest then added to monthly reports to be issue to management.	Analysis report to be provided by Card Administrator/ Corporate Procurement	
7	Immediate action to be taken by managers to approve outstanding transactions on MiVision on a timely basis and to continue to do so. Purchase cards should be removed from departments where transactions are not processed or approved within 3months.	2	Information is issued on a regular basis – Will reissue and set new policy – “Any Transactions not cleared in 3 Months, cards will be withdrawn from User and / or Manager – Add to Monthly report	Directors/Managers Card Administrator/ Corporate Procurement to provide info.	31 st July 2014
8	Staff should be reminded of the requirement to request proper VAT invoices and receipts. They should also be reminded of the requirement to reclaim VAT on	1	Has been done and is also an element of FP/PC training – but not a matter we can fully overview centrally. Particularly where bills have split VAT/None Vat	Directors/Managers Card Administrator /Corporate Procurement Will	31 st July 2014

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	<p>transactions where eligible. Non-compliance with this requirement should result in withdrawal of the card.</p> <p>Where possible a back dated claim is made to recover VAT if receipts are available.</p>		<p>elements– will have to be for Management at local level to ensure.</p> <p>On a trial basis CP/FN will see if some elements of central monitoring overview on the limited basis identified can route out main culprits for additional training or having cards withdrawn.</p> <p>CP to issue a reminder to Chief Officers of the requirements for card holders to claim VAT and reclaim it for past transactions and that this will be reported to audit Sub.</p>	<p>include (again) in “News flash”</p> <p>Head of Corporate Procurement</p>	
9	Card Holders and Approvers should be reminded that cards are issued to individuals and are to be utilised by them only.	2	Has been done and is also an element of FP/PC training – but not a matter we can overview centrally – will have to be for Management	Directors/Managers Card Administrator/ Corporate	31 st July 2014

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			at local level to ensure. If identified card should be taken away from Card holder and/or Authoriser. Will be included (again) in "News flash"	Procurement to send reminder	
10	Procedures should be amended to insure all invoices and receipts are scanned and attached to MiVision. If not possible they must be retained for at least 6 years. Non-compliance will result in withdrawal of the card.	1	Has already been done and Notified to Card holders and Authorisers Requirement is a FR/FPS and covered in all training FN/CP Will be included (again) in "News flash"	Directors/Mangers	31 st July 2014
11	Cardholders and approvers should be reminded of the requirements of financial regulations and contract procedure rules. If there is no satisfactory explanation	2	Chief Officers to ensure transactions comply with Financial Regulations. Approvers to be contacted to	Chief Officers Approvers for	Ongoing Immediat

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	appropriate action should be taken to recover the monies and warn the cardholder.		ensure repayments are made for transactions that don't comply with Fin Regs.	transactions identified	ely

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OPINION DEFINITIONS

APPENDIX C

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.