

|  |
| --- |
| **The Police and Crime Commissioner for Cleveland and the Chief Constable Cleveland Police** |
| **Assurance Review of the Purchasing Cards**  **2017/18** |

|  |
| --- |
| **Executive Summary** |

|  |  |
| --- | --- |
| **OVERALL ASSURANCE ASSESSMENT** | **OVERALL CONCLUSION** |
|  | **There are appropriate processes in place for the allocating and monitoring of purchasing and credit cards, although some controls require strengthening to address some areas;**   * **Receipts for expenditure incurred on credit cards was not always provided in a timely manner by cardholders.** * **Receipts were not always provided in the correct format or at all in some instances by cardholders.** * **Policy and guidance for purchasing cards needs to be documented.** * **A periodic review of card limits should be undertaken.** |
| **SCOPE** | **ACTION POINTS** |
| Scope  The review assessed the adequacy and effectiveness of the internal controls in place for the distribution, monitoring and managing of the Purchasing and Credit Cards.  The audit focused on the following key areas:   * Adequate and effective procedures in place for the appropriate management of Purchasing Cards including the authorisation of Credit Card expenditure, * Spending limits are proportionate and appropriate; * Purchases are in accordance with agreed procedures; * Purchases for Officer and staff expenses are in accordance with approved expenses procedures * Credit card statements are reconciled and correctly allocated to budgets on a timely basis. | |  |  |  |  | | --- | --- | --- | --- | | **Urgent** | **Important** | **Routine** | **Operational** | | **0** | **3** | **3** | **2** | |

|  |
| --- |
| **Management Action Plan – Priority 1, 2 and 3 Recommendations** |

| **Rec.** | **Risk Area** | **Finding** | **Recommendation** | **Priority** | **Management**  **Comments** | **Implementation**  **Timetable**  **(dd/mm/yy)** | **Responsible**  **Officer**  **(Job Title)** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 2 | Directed | There is no documented policy or guidance for the use of the NatWest Purchasing Cards. | The Corporate Credit Card Procedure be amended to include policy and guidance for the NatWest Purchasing Cards. | 2 | *A separate policy for purchasing card with an addendum for the card held within finance will be created* | *31/12/17* | *Anne-Marie Morris – Treasury Manager* |
| 3 | Compliance | The audit trail for the issue and receipt of card by cardholders was incomplete and inconsistent. | A standard pro-forma be introduced to record the issuing and receipt of credit cards, and the receipt of and the agreement to adhere to the requirements of the Corporate Credit Card Procedure. | 2 | *A proforma for the card holder to sign, confirming their understanding of the policies and procedures in place to be created. We will also create a checklist to ensure that all stages of issuing are completed.* | *31/12/17* | *Alison Firman – Treasury Manager* |
| 4 | Compliance | The submission of receipts was found to be untimely for a core of cardholders. Eight submissions were outstanding in each of the three months prior to the audit visit. | The requirement to submit the A05-50 Corporate Credit Card Expense Analysis form with receipts to support the expenditure incurred in a timely manner be reinforced with all card holders. | 2 | *Issues within the source team line management structure have led to delays in receiving the returns. Treasury staff will remind the card holders of their responsibility and the escalation routes will be used if required.* | *Completed July 2017* | *Alison Firman – Treasury Manager* |
| 1 | Directed | The list of credit card expenditure authorisers does not cover all of the roles of the current cardholders. | The Corporate Credit Card Procedure be updated to include the authoriser for all cardholder levels. | 3 | *The Credit card policy will be amended to reflect the current situation for the authorising officer of the PCC’s card* | *31/12/17* | *Alison Firman – Treasury Manager* |
| 5 | Compliance | The Excel spreadsheet used to record journal details did not hold the date of posting for the sample of journals reviewed. | The date of posting for journals be recorded on the Excel spreadsheet used to record the journal audit trail. | 3 | *The date of posting is recorded in the Oracle system and this will now be matched with the date entered on the bottom of the Journal spreadsheet.* | *Completed* | *Alison Firman – Treasury Manager* |
| 6 | Operational | Spend on seven of the credit cards that have limits in excess of the standard £1,000 did not exceed more than 26% of the limit set during the previous 12 months. | A review be undertaken to determine if the current issue of credit cards and their associated limits is appropriate and/or cost effective. | 3 | *A review of the credit card limits and their average spend over the last few years will be undertaken with a view to reduce limits if appropriate.* | *31/12/17* | *Alison Firman – Treasury Manager* |

|  |
| --- |
| **Operational Effectiveness Action Plan** |

| **Ref** | **Risk Area** | **Item** | **Management**  **Comments** |
| --- | --- | --- | --- |
| 1 | Directed | Consideration be given to using the option of receiving monthly credit card statements electronically. | *Treasury managers to look into the potential to receive electronic statements via the Natwest Banking system.* |
| 2 | Compliance | Documentation relating to the request, approval and receipt of current credit cards be held in one central location. | *A review of all the current credit card documentation to ensure all appropriate information is stored in one place* |

|  |
| --- |
| **Detailed Findings** |

**INTRODUCTION**

1. This review was carried out in July 2017 as part of the planned internal audit work for 2017/18. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

**BACKGROUND**

1. Credit cards and purchasing cards are provided across the organisation to specified officers and staff to allow them to effectively carry out their duties. Arrangements for the collection of data to support expenditure is undertaken by the Treasury Team based at Ladgate Lane. Both types of card are provided by NatWest with payment being made by Direct Debit each month following the receipt of statements.

**MATERIALITY**

1. There are 27 credit cards and five purchasing cards currently issued. The total expenditure on credit cards in 2016-17 was £22,300 and £67,211 for purchasing cards.

**KEY FINDINGS & ACTION POINTS**

1. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

**SCOPE AND LIMITATIONS OF THE REVIEW**

1. The review assessed the adequacy and effectiveness of the internal controls in place for the distribution, monitoring and managing of the Purchasing Cards. The audit focused on the following key areas:

* Adequate and effective procedures in place for the appropriate management of Purchasing Cards including the authorisation of credit card expenditure;
* Spending limits are proportionate and appropriate;
* Purchases are in accordance with agreed procedures;
* Purchases for Officer and staff expenses are in accordance with approved expenses procedures; and
* Credit card statements are reconciled and correctly allocated to budgets on a timely basis.

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

**DISCLAIMER**

1. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

**RISK AREA ASSURANCE ASSESSMENTS**

1. The definitions of the assurance assessments are:

|  |  |
| --- | --- |
| **Substantial Assurance** | There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved. |
| **Reasonable Assurance** | The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved. |
| **Limited Assurance** | The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved. |
| **No Assurance** | There is a fundamental breakdown or absence of core internal controls requiring immediate action. |

**ACKNOWLEDGEMENT**

1. We would like to thank staff for their co-operation and assistance during the course of our work.

**RELEASE OF REPORT**

1. The table below sets out the history of this report.

|  |  |
| --- | --- |
| **Date draft report issued:** | 20th July 2017 |
| **Date management responses rec’d:** | 24th July 2017 |
| **Date final report issued:** | 25th July 2017 |

1. The following matters were identified in reviewing the Key Risk Control Objective:

|  |
| --- |
| **Directed Risk: Failure to direct the process through approved policy & procedures.** |

* 1. The Corporate Credit Card Procedure sets out the policy and guidance for the use of corporate credit cards for the Force. The procedure was introduced in April 2016 and is set to be reviewed at least every two years. The procedure is version controlled and it was noted that there have been no changes to the procedure since inception.
  2. The document covers the following areas;
* Applications;
* Acceptable expenditure;
* Overseas use;
* Restrictions on use;
* Receipts and Statements;
* Unidentified/Fraudulent use
* Loss/Theft of a card;
* Return of a card;
* Reimbursement of non-approved items; and
* Compliance and Monitoring.
  1. There are currently 27 credit cards issued, which are used across the OPCC, and Corporate and Operations within the Force.
  2. All applications for cards must be authorised in writing by the applicant’s Commander or Head of Service and approved by the CFO or Head of Finance. The standard credit limit is set at £1,000, with the option to have temporary or permanent increases for valid business reasons. Any increases must be authorised by the cardholder’s Head of Service and the CFO/Head of Finance.
  3. The procedures sets out the acceptable expenditure and also requires that every effort should be made to ensure that the most cost effective option is chosen. It acknowledged in the procedure that expenditure that needs to be incurred for business reasons that falls outside of the guidance, should where possible, be referred to the CFO for the Force for prior approval. Where this is not practicable the reasons must be documented on the monthly expenditure analysis sheet.
  4. Restricted items include cash withdrawals or cash advances, presents or gifts for employees, personal hotel charges and goods and services for which a purchase order should be raised
  5. The procedures sets out the authoriser for cardholders. It was noted that whilst the Police and Crime Commissioner (PCC) role is designated as an authoriser for the Chief Constable’s expenditure, the PCC as a cardholder was not listed. It was confirmed through the testing undertaken during the audit that in practice the Chief Finance Officer and Deputy Chief Executive for the Office of the Police and Crime Commissioner (OPCC) reviews and authorises the card expenditure incurred by the PCC.

|  |  |
| --- | --- |
| **Recommendation: 1** | **Priority: 3** |
| **The Corporate Credit Card Procedure be updated to include the authoriser for all cardholder levels.** | |

* 1. There are five purchasing cards, issued by NatWest, currently issued and in operation. Each card is a ‘virtual card’, in that the card number, start date, expiry date and security card are provided by NatWest, with no physical card being provided. Cards are held and used by the OPCC, Finance, Executive, Shared Service Centre (SSC) and the Police Federation. Limits set are generally low with the exception being the £20,000 limit for SSC, which appears to be appropriate as they oversee the ordering of stationery.
  2. It was noted that there is no documented policy or process guidance for the issuing and collation of the purchasing cards. There are, however, documented procedures for the raising of orders, receiving and validating the purchasing card statements for SSC.

|  |  |
| --- | --- |
| **Recommendation: 2** | **Priority: 2** |
| **The Corporate Credit Card Procedure be amended to include policy and guidance for the NatWest Purchasing Cards.** | |

* 1. For the credit cards, statements are produced by the credit card provider on the 28th of each month. It was noted that these are issued to the PCC office address and are then redirected to the Treasury Team at the Ladgate Lane offices. Payment is collected on/or around the 5th of the following month by direct debit. It was noted in discussions that the statements are generally not received by the Treasury team prior to payment being taken by the provider. There is an option for statements to be made available electronically, which should be explored as this may provide a quicker turnaround for the process and also identify any payments that may be fraudulent.

|  |
| --- |
| **Operational Effectiveness Matter: 1** |
| **Consideration be given to using the option of receiving monthly credit card statements electronically.** |

* 1. A copy of each statement is provided to the relevant cardholder (with the card number removed). The cardholder is required to provide all receipts for the expenditure incurred and complete the Corporate Credit Card Expense Analysis form (A05-50), which requires the following information to be provided:
* Date of expenditure;
* Details of expenditure;
* Supplier;
* Reason;
* Amount, VAT and Total; and
* Budget Code.
  1. The A05-50, provides a reminder of the types of expenditure and is required to be signed by the card holder and the authorising approver. Completed forms and associated receipts must then be returned to the Treasury Manager for review and for the journals to be created for the ledger.

|  |
| --- |
| **Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.** |

* 1. A review of the data held in relation to applications, approvals and receipt of 15 current credit cards was undertaken. The following matters were identified;
* Application documentation was evidenced for 14 of the sample reviewed. The missing information related to a card that had been issued prior to the current records being maintained, understood to be in excess of 10 years.
* Evidence to support approval was seen for 8 of the 15 reviewed, all of which had been issued since 2011.
* It was possible to evidence that 13 of the card holders had signed for receipt of the card, although seven of the records did not include the date
* Card holders did not always sign for receipt of the policy.
  1. It was also noted that the documentation that formed the audit trail was held in more than one location and/or format, with some being held within the Treasury Manager’s Outlook records.

|  |  |
| --- | --- |
| **Recommendation: 3** | **Priority: 2** |
| **A standard pro-forma be introduced to record the issuing and receipt of credit cards, and the receipt of and the agreement to adhere to the requirements of the Corporate Credit Card Procedure.** | |

|  |
| --- |
| **Operational Effectiveness Matter: 2** |
| **Documentation relating to the request, approval and receipt of current credit cards be held in one central location.** |

* 1. A sample of 39 statements taken from the April, May and June 2017 credit cards statements was reviewed. The following matters were identified;
* Receipts were not provided for four purchases; and
* On four occasions a card machine receipt was provided, but no supplier VAT receipt.
  1. It was noted that where claims had been made for multiple items of subsistence, the Treasury Manager had requested additional information to confirm that they were Cleveland police employees.
  2. For the March 2017 Statement there were eight cardholders who had not submitted completed A05-50 forms or receipts for expenditure incurred during March 2017 by the time of the audit visit in July 2017, to the value of £3088. Discussions with the Treasury Manager confirmed that chasing emails had been issued on 10th July 2017. Previous chaser emails had also been sent in May 2017. It was further ascertained that there were also eight outstanding for April 2017, totalling £2734 and eight for May 2017, to the value of £3671. It was noted that the same names appeared each month. The policy states that if more than 3 months’ statements are outstanding and prior approval for delayed submission has not been sought from the Treasury Manager, cards may be cancelled. It is understood that this has not been enacted as yet.

|  |  |
| --- | --- |
| **Recommendation: 4** | **Priority: 2** |
| **The requirement to submit the A05-50 Corporate Credit Card Expense Analysis form with receipts to support the expenditure incurred in a timely manner be reinforced with all card holders.** | |

* 1. A sample of 10 transactions on the SSC purchase card statement for May 2017 and six transaction form April and May 2017 for the Finance card statement was reviewed. For each transaction there was an audit trail that demonstrated appropriate requisition and authorisation.
  2. All expenditure incurred on credit cards is required to be coded when the A05-50 is completed. Journals are then raised by the Treasury Manager for entry into the ledger.
  3. Journal details are held on an Excel spreadsheet, which is maintained by the Treasury Manager. A review of the journals posted for the four months from February 2017 noted that where the cardholder had returned the A05-50 form that the journal had been posted in a timely manner. Due to the late return of forms as highlighted in Paragraph 11.17, some items had yet to be journaled. It was noted that the records maintained did not record the date that the journal was posted. Information from the narrative included was used to determine the dates for the sample tested.

|  |  |
| --- | --- |
| **Recommendation: 5** | **Priority: 3** |
| **The date of posting for journals be recorded on the Excel spreadsheet used to record the journal audit trail.** | |

|  |
| --- |
| **Operational Risk: Failure to identify opportunities to operate more efficiently or to be prepared for forthcoming changes.** |

* 1. A review of the actual spend on each card issued (not including Covert) was undertaken. It was noted that two cards had not used during the year, other than to pay the annual card fee of £25. Of the seven cards that have limits in excess of the standard £1,000 the maximum usage value in any one month did not exceed more than 26% of the limit set.

|  |  |
| --- | --- |
| **Recommendation: 6** | **Priority: 3** |
| **A review be undertaken to determine if the current issue of credit cards and their associated limits is appropriate and/or cost effective.** | |

* 1. A similar review of the purchasing cards identified regular monthly use for four of the cards with the fifth card, allocated to the Police Federation, being used less frequently. Limits were deemed to be appropriate for the areas of spend that were allocated to these cards.

---------------