

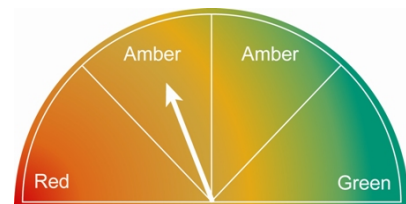
Thurrock Council

Purchase Cards

Internal Audit Report
9th July 2012

FINAL

Overall Opinion



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Debrief meeting	18 June 2012	Auditors	Chris Harris - Associate Director
Draft report issued	21 Sept 2011		Gary Clifford - Client Manager
Responses received	18 June and 6 July 2012		Dina Lucchesi - Senior Auditor
Final report issued	9 July 2012	Client sponsor	Sean Clark - Head of Corporate Finance
		Distribution	Andrew Murphy – Director Of Environment Sean Clark - Head of Corporate Finance Martin Hone – Corporate Director Finance and Corporate Governance Geoff Gladwin – Business Services Manager Darren Spring – Street Services Manager



This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Purchase Cards was undertaken as part of the approved internal audit periodic plan for 2011/12.

When used responsibly, there are a number of advantages to using purchase cards as they enhance the purchasing process and provide an efficient, and sometimes cost effective method of purchasing and paying for items such as travel, hotel accommodation and fuel.

At Thurrock there are only two types of card in use:-

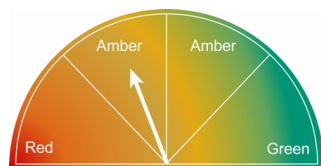
1. Credit Cards – These are assigned to seven individual employees, mainly senior Executives, who may need it when carrying out the Council's business, i.e. travel and accommodation. Each employee is responsible for their credit card and is assigned a monthly spending limit.
2. Arval Fuel Cards - Mainly used by teams who use the Council's fleet vehicles to perform their duties e.g. Environment, Street Services, Highways, Horticulture Team, Housing etc. The card allows the driver to present the card as payment and the Council is sent a consolidated invoice detailing all fuel purchases at the end of each month, or, a statement for those departments who pay by Direct Debit.

For 2010-11 the total fuel expenditure amounted to £817,884.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To ensure there are robust controls around the use of purchase cards including authorisation limits, compliance with financial rules and monitoring arrangements.
Risk	Internal controls for Purchase Cards administration are not adequate There are no controls in place to reasonably prevent purchase card misuse and abuse

1.2 CONCLUSION



Taking account of the issues identified, whilst the Council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of effectiveness, design and application of controls in place:

Effectiveness

- All expenditure appeared to be business related. However, there were a number of weaknesses in controls that may allow the abuse or misuse of Credit and Fuel Cards. These have been detailed below.

Design of control framework

- The Bank allowed individual limits to be exceeded.

Application of and compliance with control framework

- The Financial Services Department did not keep a log of card holders.
- VAT receipts were not always obtained so VAT was not reclaimed.
- Credit Card Procedures are not always complied with.

- Statements were not reconciled in a timely manner by someone other than the cardholder.
- Credit Cards were not always cancelled immediately an employee left the organisation.
- Arval invoices were not reconciled to sales vouchers prior to payment.
- Regular checks had not been introduced to ensure diesel purchased was reasonable for the mileage incurred.

1.3 SCOPE OF THE REVIEW

The scope of the audit will be limited to reviewing processes in place. Conclusions will be based upon sample testing of transactions relevant to the current financial year to date. It should not, therefore, be considered as a comprehensive review of all aspects of non-compliance that may exist now or in the future. Any testing undertaken as part of this audit will be compliance based and sample testing only. In addition, our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	1	0
Application of control framework	0	4	3
Total	0	5	3

Recommendations made during this audit

The recommendations address the risks within the scope of the audit as set out below:

Risk	Priority		
	High	Medium	Low
Internal controls for Purchase Cards administration are not adequate	0	2	1
There are no controls in place to reasonably prevent purchase card misuse and abuse	0	3	2
Total	0	5	3

One suggestion was also made around the need for management to consider whether allowing staff to use their own loyalty cards is appropriate. It is acknowledged that this is not a widespread issue and any benefit obtained is not likely to be significant.

ACTION PLAN

The priority of the recommendations made is as follows:

Fundamental	Significant	Merits Attention
Action is imperative to ensure that the objective for the area under review is met	Requires action to avoid exposure to significant risk in achieving the objective for the area under review.	Action is advised to enhance control or improve operational efficiency

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	New credit card holders must sign the declaration at the end of the Credit Card Procedures and return to the Head of Corporate Finance when they receive their card. This shows that they have read and understood their responsibilities when using the credit card. This reduces the likelihood of the card being used inappropriately.	Medium	Y	This is already standard practice though it needs to be reviewed	On-going review 2012 and July	Head of Corporate Finance
1.2	A log should be kept in the Financial Services Department of all card holders, to include card number, expiry date, credit limits and date card returned and cancelled with the Bank in the event of a cardholder leaving the organisation, or, no longer requiring the card.	Low	Y	Agreed	July 2012	Head of Corporate Finance
1.3	Cardholders should be reminded that VAT must be accounted for where appropriate and to obtain VAT receipts for expenditure already incurred in the current financial year. Failure to do so could result in the Council not reclaiming the VAT when it is entitled to do so.	Medium	Y	This is included within the procedures at 1.1 above.	On-going	Head of Corporate Finance

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2.1	The Bank and cardholders should be reminded that they must not exceed their individual limits as this is a breach of the Credit Card Procedures.	Medium	Y	This is included within the procedures at 1.1 above.	On-going	Head of Corporate Finance
2.2	Cardholders should be reminded that someone other than the cardholder should reconcile receipted expenditure against that shown on the statement prior to it being authorised for payment, This reduces the risk of error or irregularity.	Low	Y	This is included within the procedures at 1.1 above.	On-going	Head of Corporate Finance
2.3	Cardholders should be reminded that as required by procedures, the statement should be reconciled, coded, supported by relevant invoices/receipts and passed to Financial Services within one week of receipt. This ensures expenditure is coded to the General Ledger in a timely manner and management information is up to date and accurate.	Low	Y	This is included within the procedures at 1.1 above.	On-going	Head of Corporate Finance
2.4	Cards should be cancelled immediately an employee leaves the organisation and written confirmation should be obtained from the Bank. This reduces the risk of an employee using the card after they have left.	Medium	Y	Cards are immediately cancelled and we will seek confirmation from the bank.	On-going	Head of Corporate Finance
2.5	Managers should introduce a process for making regular checks to ensure that the diesel purchased is reasonable for the mileage incurred. Invoices should then be reconciled to sales vouchers to ensure they agree prior to payment	Medium	Yes, although already in place covering the	Recognising the control and cost-efficiency weaknesses in the use of fuel cards, we switched supply source in early 2011/12 from them to a single supplier (Silwoods, adjacent to the Waste Depot) for all Waste vehicles.	Nov 2012	Business Services Manager

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
	being made. This will ensure the Council is obtaining value for money.		majority of fuel spend and in progress for the remainder.	<p>This covers around 60% of total Environment Directorate fuel costs. Since that time, the actions recommended are already fully undertaken in respect of Waste vehicles, including the weekly monitoring of mileage and MPG for each vehicle, and the monthly reconciliation of weekly supply invoices.</p> <p>For vehicles still using AllStar (previously Arval) fuel cards (approx £320k annually), we have already put in place some controls and expect to complete the review of processes and procedures by September/October this year.</p> <p>Actions already taken are:-</p> <ul style="list-style-type: none"> ▪ Purchase and installation of a new Fleet Management system (Fleetmaster) in July 2011. This enables MPG and various exception reports to be generated. [However, the process to capture reliable fuel usage data will not be in place for another month or so. Whilst some driver-recorded data is captured, this is not consistently reliable or accurate]. ▪ Fitting of Road Angel tracking devices to all Thurrock owned vehicles, completed during 2011/12. This equipment provides reliable vehicle use data including covering miles travelled, journeys taken, exception 		

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
				<p>reports, etc.</p> <ul style="list-style-type: none"> ▪ We <u>were</u> reconciling fuel card invoices to fuel usage data until September 2011. This was stopped following advice received through the PWC-led review of locally maintained spreadsheets and systems, but shouldn't have been, and is now back in place. <p>We have reviewed the control and reconciliation information provided by AllStar (i.e. ex-Arval) and the back-up data requested from them will in future (expected w.e.f. August) enable us to monitor fuel usage by vehicle and support the reconciliation of monthly fuel card invoices. One change being implemented is to switch the fuel card link from individual drivers to vehicles.</p>		

