



Internal Audit Report  
Corporate & Democratic Services/All Services  
Credit Cards Assignment No. 16-02  
September 2016

## Final Report

Finance Division  
Corporate and Democratic Services  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth PH1 5LU

## Internal Audit Report

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

The Council’s credit card facility is managed by the Incomes Team of the Finance Division. The Senior Incomes Officer is responsible for the administration of the Council’s credit card account, currently held with National Westminster Bank as part of the contract for banking services provided by the Royal Bank of Scotland.

This audit covered the use of credit cards throughout the Council as well as the corporate control exercised by the Finance Division.

Audit testing was carried out in April and May 2016.

### Scope

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with the staff in Finance Division. Officers with credit cards within Services will be contacted as part of this review.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that adequate arrangements are in place for the requesting and authorising of Council Credit Cards.	
Audit Comments:  The Corporate Credit Card Guidelines (CCCG), which are published on Eric and are accessible to all Services, include the process to be followed for requesting and authorising Council credit cards.  All credit card request forms are subject to rigorous scrutiny prior to authorisation and issue.	
Strength of Internal Controls:	Strong

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Control Objective 2: To ensure that credit cards are used appropriately and are subject to appropriate control within Services.	
<p>Audit Comments:</p> <p>The CCCG provide guidance for the use of credit cards, including indicating what credit cards can and cannot be used for. There is scope to enhance the CCCG with regard to clarifying arrangements for the cancellation of cards, the process for card holders to follow when their cards have been compromised and the requirement to destroy PINs.</p> <p>Credit cards were mostly used appropriately by Services, and there is evidence of controls in place in some areas. However there were occasions where the transactions were not supported by fully completed or authorised payment request forms or supported by receipts.</p> <p>In some instances, credit cards have, with the permission of the credit card holder, been used routinely by officers other than the credit card holder and not all credit cards are held securely in accordance with the guidelines.</p>	
Strength of Internal Controls:	Moderate

Control Objective 3: To ensure that credit card expenditure is adequately reconciled throughout the Council	
<p>Audit Comments:</p> <p>Council credit card statements are reconciled to the Council's bank account on a regular basis. Additionally, credit card statements are reconciled to source documentation by each service, although there were occasions where there were items of expenditure for which there was no proof of purchase.</p> <p>The CCCG highlight that Finance Division will conduct routine compliance checks of credit card purchases at Service locations, however no such checks have been undertaken.</p>	
Strength of Internal Controls:	Moderately Strong

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

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Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of staff within Corporate and Democratic Services, Education & Children's Services, Housing & Community Services and The Environment Service during this audit.

### Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development)

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

Keith McNamara, Head of Strategic Commissioning and Organisational Development

B Renton, Director (The Environment Service)

S MacKenzie, Head of Performance and Resources

G Boland, Service Manager (Contracts and Financial Management)

A Taylor, Head of Finance & Support Services (Housing & Community Care)

N Copland, Business & Resources Manager (Housing & Community Care)

J Coburn, Finance Manager (Education & Children's Services)

J Symon, Head of Finance

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

### Authorisation

The auditor for this assignment was J O'Connor. The supervising auditor was M Morrison.

This report is authorised for issue:

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J Clark

Chief Internal Auditor

Date: 16 September 2016

## Internal Audit Report

### Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Corporate Credit Card Guidelines	Low
2	In-house Catering and Corporate Hospitality	Medium
3	Purchasing Goods and Services by Credit Card	Medium
4	Segregation of Duties	Medium
5	Incomes Team Credit Card Management	Medium
6	Card Holder Security Arrangements	Medium

## Appendix 2: Action Plan

### Action Point 1 - Corporate Credit Card Guidelines

The guidelines for the administration, use and security of credit cards are available to all staff on the intranet, Eric.

There is scope to improve the Guidelines in order to clarify arrangements for the cancellation of cards (e.g. when a member of staff leaves or moves post), the process for card holders to follow when their cards have been compromised and the requirement to destroy PINs. Furthermore, there is an inconsistency between the titling of the document as to whether these are guidelines to staff or are formal procedures to be followed.

### Management Action Plan

The Guidelines / Procedures will be clarified and will include the procedures to be followed regarding the cancellation of cards, the process to be followed when cards have been compromised and for the destruction of PINs. The Guidelines will be subject to version control.

Importance:	Low
Responsible Officer:	R Goldby, Senior Incomes Officer
Lead Service:	Corporate & Democratic Services
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Copy of updated guidelines with version control.

### Auditor's Comments

Satisfactory

## Action Point 2 - In-house Catering and Corporate Hospitality

Corporate and Democratic Services use a credit card routinely for purchasing fresh food from a supermarket for in-house catering and corporate hospitality. In addition to the credit card being presented, a store reward card is also presented at each transaction. At the time of the audit, there was no reward card for the Council.

Whilst the Credit Card Guidelines do not reference the use of such a reward card, Education & Children's Services Financial Policies and Procedures clearly state that it is not acceptable to use these for petty cash purchases.

In addition, although purchases made through the credit card for corporate hospitality include items specifically excluded by the Guidelines, it is acknowledged that this relates to business need.

### Management Action Plan

1. The Service has obtained and is using a Council reward card.
2. The credit card guidelines will be updated to ensure that they clearly state that personal reward cards should not be used when purchasing goods and services through the credit card.
3. The Head of Legal and Governance Services will review the relevant Gifts and Hospitality policy to ensure that there is clarity regarding the provision of corporate hospitality.
4. The credit card guidelines will subsequently be linked to the revised Gifts and Hospitality Policy

Importance:	Medium
Responsible Officer:	1. R Hughes, Senior Civic and Members Services Officer 2. & 4. R Goldby, Senior Incomes Officer 3. L Simpson, Head of Legal & Governance Services
Lead Service:	Corporate & Democratic Services
Date for Completion (Month / Year):	1. Complete 2. December 2016 3. & 4. March 2017
Required Evidence of Completion:	1. Use of Council reward card 2. & 4. Updated guidelines 3. Updated Gifts and Hospitality Policy and guidelines

### Auditor's Comments

Satisfactory

### Action Point 3 - Purchasing Goods and Services by Credit Card

As per the credit card guidelines, when purchasing an item using a Council credit card, a fully completed and adequately authorised Credit Card Payment Request form should be completed prior to any purchase. Guidelines also require the presentation of corresponding receipts.

In February 2016, the Finance Division contacted all card holders to get assurance that they had read and understood the guidelines/procedures. Despite all credit card holders confirming their understanding, testing of credit card transactions throughout the Council revealed examples of:

- purchases made without a completed credit card payment request form;
- credit card request forms completed but not detailing the relevant ledger codes;
- credit card payment request forms not being appropriately authorised; and
- credit card payment request forms not being supported by proof of purchase.

### Management Action Plan

1 - 3. The Services will monitor the use of credit cards and periodically undertake compliance checks to ensure that all transactions are supported by the appropriate documentation which is appropriately authorised.

4. The Finance Division will undertake a follow up / compliance check on those cards where issues have been highlighted by Internal Audit to ensure that the paperwork is fully completed and authorised in line with the procedures/guidelines.

Importance:	Medium
Responsible Officer:	1. N Copland, Business & Resources Manager 2. S Welsh, Finance and Governance Team Leader 3. C Robertson, Corporate Accounting Manager 4. R Goldby, Senior Incomes Officer
Lead Service:	1. Housing & Community Care 2. The Environment Service 3. & 4. Corporate & Democratic Services



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Date for Completion (Month / Year):	1. & 3. November 2016 2. Completed 4. February 2017
Required Evidence of Completion:	Evidence of checks

### Auditor's Comments

Satisfactory
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### Action Point 4 - Segregation of Duties

The Guidelines state that "Under no circumstances should an employee authorise the use of the Council credit card to purchase any item requested by them even though it would be for a genuine business expense."

However, in two Services, there were instances where the officer authorising the use of the credit card was also the officer requesting the purchase.

### Management Action Plan

The Services should monitor the use of credit cards and periodically undertake compliance checks to ensure that appropriate segregation of duties can be demonstrated.

Importance:	Medium
Responsible Officer:	1. N Copland, Business & Resources Manager 2. S Welsh, Finance & Governance Team Leader
Lead Service:	1. Housing & Community Care 2. The Environment Service
Date for Completion (Month / Year):	1. November 2016 2. Completed
Required Evidence of Completion:	Evidence of monitoring

### Auditor's Comments

Satisfactory

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### Action Point 5 - Incomes Team Credit Card Management

Credit Card Guidelines state that the Incomes Team will conduct compliance checks on a periodic basis. If such compliance checks had been carried out, the majority of the above issues might have been highlighted prior to the audit, thus improving the control over the use of credit cards.

The Central Finance Manager confirmed that checks are not carried out due to the lack of resources.

### Management Action Plan

1. The Financial Regulations which are currently being updated will transfer the requirement for the compliance checks to Service Financial Controllers.
2. – 5. Each Service's Operational Financial Regulations will subsequently require to be updated for this and other changes arising from the review of the Financial Regulations.

Importance:	Medium
Responsible Officer:	<ol style="list-style-type: none"><li>1. C Robertson, Corporate &amp; Democratic Services</li><li>2. C Robertson, Corporate &amp; Democratic Services</li><li>3. J Cockburn, Finance and Governance Manager</li><li>4. N Copland, Business &amp; Resources Manager</li><li>5. F Crofts, Finance &amp; Resources Manager</li></ol>
Lead Service:	<ol style="list-style-type: none"><li>1. &amp; 2. Corporate &amp; Democratic Services</li><li>3. Education &amp; Children's Services</li><li>4. Housing &amp; Community Care</li><li>5. The Environment Service</li></ol>
Date for Completion (Month / Year):	<ol style="list-style-type: none"><li>1. December 2016</li><li>2. - 5. March 2107</li></ol>
Required Evidence of Completion:	<ol style="list-style-type: none"><li>1. Financial Regulations</li><li>2. - 5. Operational Financial Regulations and evidence of first control check</li></ol>

### Auditor's Comments

Satisfactory

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### Action Point 6 - Card Holder Security Arrangements

The Guidelines state that the card holder should hold the card securely in the office unless there is appropriately documented prior agreement from the Head of Finance. Furthermore, the guidelines also state that only the named card holder is authorised to use the Council credit card and that no other employee should be permitted access to or use of the card.

The Auditor found that one card was accessible to four different officers within the same team, and all four officers used the card. The security of this card was further compromised by a photocopy of both sides of the card being provided to a hotel in order to secure a booking.

Some cards in use by officers within Housing and Corporate & Democratic Services were routinely removed from the office due to business need but without the appropriate agreement of the Head of Finance being in place.

### Management Action Plan

1. - 3. Services will review their security arrangements for holding and storing cards.
4. The Environment Service will undertake an exercise to review the requirement for credit cards to ensure that officers who require to use credit cards hold one in their own name.
5. & 6. Housing & Community Care and Corporate & Democratic Services will request the agreement of the Head of Finance for the removal of specific credit cards from the office for business need.

Importance:	Medium
Responsible Officer:	1. & 4. S Welch, Finance & Governance Team Leader 2. & 5. N Copland, Business & Resources Team Leader 3. & 6. G Taylor, Head of Democratic Services
Lead Service:	The Environment Service Housing & Community Care Corporate & Democratic Services
Date for Completion (Month / Year):	1. & 3. Completed 2. & 4. November 2016 5. October 2016
Required Evidence of Completion:	Review of credit card holders and approval of removal from office of credit card

### Auditor's Comments

Satisfactory