

## EAST SUSSEX FIRE AUTHORITY

<b>Meeting</b>	Scrutiny & Audit Panel
<b>Date</b>	12 November 2020
<b>Title of Report</b>	Internal Audit Report – ESFRS Procurement Cards
<b>By</b>	Duncan Savage, Assistant Director Resources / Treasurer
<b>Lead Officer</b>	Claire George, Procurement Manager

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<b>Background Papers</b>	None
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<b>Appendices</b>	1. ESFRS Procurement Cards Final Report – June 2020
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### Implications

<b>CORPORATE RISK</b>	✓	<b>LEGAL</b>	
<b>ENVIRONMENTAL</b>		<b>POLICY</b>	✓
<b>FINANCIAL</b>	✓	<b>POLITICAL</b>	
<b>HEALTH &amp; SAFETY</b>		<b>OTHER (please specify)</b>	
<b>HUMAN RESOURCES</b>		<b>CORE BRIEF</b>	
<b>EQUALITY IMPACT ASSESSMENT</b>			

<b>PURPOSE OF REPORT</b>	To update on the findings and assurance opinion of the Internal Audit Report, undertaken in 19/20.
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<b>EXECUTIVE SUMMARY</b>	Internal Audit conducted an audit of the processes and policies which support Procurement Card (PCard) capability within ESFRS, in line with the agreed audit plan for 2019/20.
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The audit sought to provide assurance that PCards are only issued to appropriately authorised and trained staff, that policy is being adhered to and to establish whether the introduction of the PCard programme has reduced the volume of low value purchase orders and invoices being processed. The findings recognise robust processes are in place for the issue of cards and the auditing of transactions, however, it has also identified that improvement is required in relation to compliance with policy, training and reducing the volume of low value invoices and purchases.

The report concludes that Partial Assurance is provided in respect of PCards at this time.

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<b>RECOMMENDATION</b>	To note the final audit report, its opinion and recommendations & consider whether any further information is required.
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## **1. INTRODUCTION**

- 1.1 Used appropriately, Procurement Cards (PCards) are a flexible way for staff to buy goods and services. Benefits include being able to buy direct from the internet and local suppliers, enabling more efficient purchasing and better pricing. The card streamlines the procurement process by replacing the need for petty cash, cheque requests, cash advances, low value requisition purchase orders and is particularly useful for a one-off purchase from a supplier.
- 1.2 As of 11th December 2019, there were 116 PCard holders across ESFRS. Between 1st April 2019 and 2nd December 2019, 1,932 PCard transactions were made with a total value of approximately £778k.
- 1.3 This audit has sought to provide assurance that PCards are only issued to appropriately authorised and trained staff and are being used only to purchase goods and services that are wholly, exclusively and necessary for the use of ESFRS. It also aimed to establish whether the introduction and roll-out of the PCard programme has delivered the targeted process efficiencies intended, by reducing the number of low value purchase orders and invoices that have been raised.

## **2. SCOPE OF AUDIT**

- 2.1 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - Purchase cards are issued in accordance with ESFRS policy;
  - Cards are only issued to appropriately authorised and trained employees;
  - Cards are only used for goods and services wholly, exclusively and necessarily for ESFRS use; and
  - Purchases are subject to appropriate review, authorisation and reconciliation, in a timely basis.

## **3. SUMMARY FINDINGS**

- 3.1 Audit were able to give partial assurance against the scope described.  
15 priorities were identified, of which none were considered high risk, 13 were considered medium and 3 low.

- 3.2 The Auditors acknowledged that there is a robust process in place for PCard applications and approval and that cards are only issued to officers once they have completed the ILearn training course, prior to receiving the card. Controls surrounding issuing of PCards is operating as intended and testing revealed that all of the cardholders sampled had completed the card's Terms and Conditions as expected.
- 3.3 Monthly audit activity is identifying any anomalies in the spend and cardholders are contacted directly for evidence to support the validity of the purchase.
- 3.4 Priorities and clear areas for improvement relate in the main to compliance with the reconciliation process, a reduction in the volume of low value invoices and purchase orders, tax receipt retention, enhanced support for approvers and the need for greater clarity and support for all cardholders to adhere to the user guidance and the policy, which support the PCard programme.
- 3.5 As with any programme of change, communication is key. More effective engagement with the Service and better marketing of the benefits and responsibilities of PCard capability, will be fundamental to improve both usage and compliance.

#### **4. RESPONSE**

- 4.1 Procurement cards have now been widely adopted by the Service & the audit has been an important and informative exercise in identifying where we have gaps and where we must target improvements. It is clear that the areas for focus are compliance and usage in the areas where they add most value.
- 4.2 Procurement are conducting a post implementation review, to address the audit findings specifically but crucially we will also be gathering feedback from cardholders and approvers, to further enhance our understanding of what is working, what is not and how we can improve compliance, which remains an ongoing issue. Procurement continue to proactively support staff to reconcile promptly and whilst we have seen some cultural resistance, better communication as to why it is vital is key, to help colleagues understand the necessity of the timebound process. The review will also assess options for additional technological support in this area, including the viability of an associated app to aid reconciliation.
- 4.3 PCards deliver greatest value when used for high volume, low value supplies and for one-off purchases and it is disappointing that we have not yet seen a significant reduction in the volume of low value purchase orders and invoices.

Procurement & Finance will be conducting a joint review of the Procure to Pay process, which will include objectives to reduce the number of low value invoices.

The planned PCard review will also include the identification of low value invoice hotspots and seek to understand how we can further embed use of PCards in those areas. We will be analysing the data we already have, by looking at each individual PO raised to understand why a PCard was not used & then targeting the barrier in that particular area (be it cardholder confidence, supplier enablement, limit reached

that month, lack of cardholder/adequate approver cover etc). Going forward, we will report this monthly until no further reduction can be achieved.

To support this, the data collected as part of the category strategy approach has already identified commodities, suppliers and business areas where we see high numbers of low value transactions. The category strategies are designed to target those areas and actions include encouraging adoption of PCard payments and where appropriate, changing suppliers to facilitate this, where resilience and supply are not compromised.

- 4.4 Procurement will improve communication with colleagues. We will review the guidance to ensure it is accessible and straightforward. We must proactively market PCard capability within the Service, to ensure staff are aware of the advantages and feel competent in their use. We will better publicise the How to Buy area of the intranet, to encourage further card usage and also ensure staff are aware of our contracted suppliers. This area provides up to date information and log-ins for ordering all consumables. It includes information as to asset marked items and supplier order forms.

## **5. CORPORATE RISK**

- 5.1 A material reduction in low value purchase orders raised since the programme's inception has not been achieved. Analysis of purchase order data for the six months preceding the rollout of the PCard Programme, and the six months following its introduction identified that although there had been a reduction in the amount of PO's raised under £1,000, PO's under £250 had increased. Where the volume of low value purchases being raised has not decreased, this could result in the PCard Programme objectives not being achieved. Procurement will take the steps described above to address this.
- 5.2 Audit testing identified that three out of ten transactional approvers sampled had not undertaken the iLearn training course as expected. This is clearly stated in the user guide. Procurement will reinforce the message to all approvers that the training is mandatory & that they must successfully complete the e-learning training for Approvers prior to undertaking the activity.
- 5.3 If purchases are not authorised promptly this increases the risk that cards could be used inappropriately and the inappropriate use not being identified by management. Staff will be reminded of the importance of regular & prompt reconciliation.

## **6. FINANCIAL**

- 6.1 It is generally accepted that every transaction completed by card saves ESFRS £28.00 in purchase order and invoice processing costs. The PCard Programme was designed to make it easier and more cost effective for ESFRS to make low value purchases for goods and services below £1,000, for service use.

Audit identified cardholder transactional limits as of 6 January 2020, 26 out of 106 cardholders had single transaction limits in excess of £1,000, the highest being £10,000.

In addition to targeting increased usage of PCards, to fully realise the benefits of PCards, transactions limits will be capped at £5000.

- 6.2 If VAT is not correctly accounted for and adequate receipts are not retained this could lead to penalties and financial loss for ESFRS. Where VAT is not claimed or incorrect VAT is claimed, ESFRS becomes liable. Cardholders will be reminded of the importance of accurately recording and retaining VAT information and additional training/support delivered where required.

## **7. POLICY IMPLICATIONS**

- 7.1 Procurement will reinforce the message to all approvers that the training is mandatory and ensure that any future iterations of the policy reflect this.
- 7.2 As described, it has been agreed with Treasurer that a maximum transaction limit of £5000 will be applicable to all current cardholders and future card applications and card request documentation will be amended accordingly.
- 7.3 ESFRS do not currently have a mandated Leavers Policy. In the absence of a corporate leaver's process, the return of PCards is manually coordinated by the Procurement Card Administrator, however there is scope to coordinate this as part of a corporate exit process, to include all issued items such as PCards, IT & uniform.