

# Internal Audit Report

## ESFRS Procurement Cards 2019/20

### Final Report

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Prepared for: East Sussex Fire & Rescue Service  
Date: June 2020

## Internal Audit Report – ESFRS Procurement Cards 2019/20

### Draft Report Distribution List

Duncan Savage, Assistant Director - Resources & Treasurer  
Claire George, Procurement Manager  
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### Final Report Distribution List

As per draft report circulation

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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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. We 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.
- 1.4. This review is part of the agreed Internal Audit Plan for 2019/20.
- 1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.
- 1.6. The findings in this report are based on a review of the control environment before the national response to COVID-19. Any assurance given does not extend to interim measures or changes to management arrangements implemented due to COVID-19.

### 2. Scope

- 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. Audit Opinion

**Partial Assurance** is provided in respect of **ESFRS Procurement Cards (PCards) 2019/20**. This opinion means that there are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

*Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

### 4. Basis of Opinion

- 4.1. We have only been able to provide **Partial Assurance** over the controls operating within the area under review because there are levels of non-compliance with ESFRS' Procurement Card (PCard) policies and procedures. Existing policies should be reviewed in line with the findings in our review. Doing so will minimise ambiguity over expected processes and obligations by both the cardholder and transactional approvers.
- 4.2. There is a large responsibility placed on approving managers within the PCard process, however, training had not been received by all of the approvers sampled.
- 4.3. The establishment of a clear purchasing framework is required to ensure that the objectives of the PCard Programme are achieved.
- 4.4. In the majority of cases, valid receipts were not being uploaded into the Smartdata system. The failure to retain or obtain valid receipts/VAT receipts is contrary to procedures and could result in ESFRS being subject to financial penalty from HMRC. Furthermore, inconsistencies should have been identified and rejected by transactional approvers.
- 4.5. The development of a robust leaver process is required. This will ensure that cards are not used inappropriately by officers who are suspended from duties or have left ESFRS (although no evidence of this was observed during the audit).
- 4.6. Purchase cards are an efficient method for making low value high volume payments. However, there has not been a reduction in the amount of low value purchases orders raised since the roll-out of the PCard programme.
- 4.7. There following areas of compliance and good practice were identified, which ESFRS should look to maintain:
- 4.8. There is a robust process in place for PCard applications and approval.
- 4.9. There was evidence that cards are only issued to officers once they have completed the ILearn training course prior to receiving the card.
- 4.10. Controls surrounding issuing of PCards are operating as intended. Testing revealed that all of the cardholders sampled had completed the card's Terms and Conditions as expected.

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- 4.11. Monthly audit activity takes place and, where anomalies are identified, cardholders are contacted directly for evidence to support the validity of the purchase. However, this process could be strengthened further by utilising the reporting functionality in the Smartdata system and by enforcing the mandatory addition of a narrative to all purchases.

Audit Opinion Direction of Travel		
Improved	Unchanged	Reduced
	Not Applicable	

### 5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	12	1,4,5,6,7,8,9,10,12,13,14,15
Low	Represents good practice but its implementation is not fundamental to internal control	3	2,3,11
<b>Total number of agreed actions</b>		<b>15</b>	

### 6. Acknowledgements

- 6.1. We would like to thank all staff that provided assistance during the course of this audit.

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	<p><b>E-Learning for Approvers</b></p> <p>Part 5 of the Procurement Card Administrators (PCA) Guide stipulates that new approvers must be enrolled on the Approver iLearn module.</p> <p>Our compliance testing identified that three out of ten transactional approvers sampled had not undertaken the iLearn training course as expected.</p> <p>Furthermore, the PCA confirmed that the completion of the iLearn training for transactional approvers is not mandatory or enforced. Procurement Card (PCard) transactional approvers are only required to complete the iLearn training course if they possess a PCard for their own use.</p> <p>However, the PCard User Guide clearly states that procedures and instructions set out in the guide are mandatory for all Cardholders, their Line Managers/Approvers and all staff involved in the accounting process.</p>	<p>Where training is not undertaken by transactional approvers, this increases the risk that purchases are not effectively scrutinised for adequacy or appropriateness.</p>	Medium	<p>This is clearly stated in the user guide. Procurement will reinforce the message to all approvers that the training is mandatory &amp; that they must successfully complete the e-learning training for Approvers prior to undertaking the activity.</p> <p>We will also ensure that any future iterations of the policy reflect this.</p>

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Responsible Officer:	Claire George - Procurement Manager	Target Implementation Date:	30 June 2020
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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	<p><b>Substitute Approvers</b></p> <p>Substitute approvers are key to ensuring that transactions are reviewed and approved in the event the original approver is not available.</p> <p>Substitute approvers should be identified as another individual with the authority and ability to review transactions for validity in the same areas as the original approver.</p> <p>Our review identified that ESFRS' PCard Programme does not have a process in place for substitute approvers.</p>	<p>The lack of a substitute approver process may result in transactions not being reviewed on time.</p>	<p>Low</p>	<p>The RBS SDOL reconciliation software does not have the capability for substitute approvers. This ensures that only budget managers with direct responsibility for the expenditure can approve it.</p> <p>Procurement will seek to mitigate with the introduction of a second reviewer procedure, in the absence of a second approver.</p>
<p><b>Responsible Officer:</b></p>		<p>Claire George - Procurement Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>31 July 2020</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	<p><b>Multiple Approvers</b></p> <p>A cost centre is used by a budget holder to allocate spend. These are monitored to ensure the allotted budget is not exceeded.</p> <p>Our review of cardholder application forms identified a cardholder who had been assigned six differing transactional approvers.</p> <p>On discussion, the PCA advised that this was due to the cardholder purchasing items for different service areas.</p>	<p>The robustness of the review process is weakened where multiple approvers are assigned to an individual cardholder.</p>	Low	<p>It is the case that a small number of cardholders are required to purchase across more than one business area, e.g. Administrative Support roles to more than one Assistant Director.</p> <p>The PCA will explore if further cardholders can be identified to reduce instances.</p>
Responsible Officer:		Patricia Steel - Procurement Card Administrator	Target Implementation Date:	31 July 2020

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	<p><b>Transactional Limits</b></p> <p>Our review of the PCard policy identified that a specific single transaction value and a monthly maximum spend value for cardholders has not been set.</p> <p>Card limits are set and approved by individual budget holders and are tailored to individual purchasing needs.</p> <p>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. Our review of cardholder transactional limits identified that as of 6 January 2020, 26 out of 106 cardholders had single transaction limits in excess of £1,000, the highest being £10,000.</p>	<p>The lack of a clear purchasing framework could result in the objectives of the PCard Programme not being achieved.</p>	Medium	<p>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.</p>
<p><b>Responsible Officer:</b></p>		<p>Claire George - Procurement Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>30 June 2020</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	<p><b>Transactional Limit Changes</b></p> <p>The PCard 'amendment request' form is completed by an appropriate level manager when changes to the cardholder's personal details, cost centres and transactional limits are required.</p> <p>During the audit, we were unable to obtain a list of forms that had been completed for changes to transactional limits. Obtaining a sample of changes that had been approved proved difficult.</p>	Without a clear audit trail for changes to personal details and transactional limits, the ability to effectively scrutinise card amendments is reduced.	Medium	<p>The PCA currently retains all change requests. The information captured at the point of change will be updated to reflect the nature of all changes made and the date processed.</p> <p>In future, the data recorded will include transaction limit amendments, change of personnel i.e. reviewer or approver and related cost centre information.</p>
<b>Responsible Officer:</b>		Claire George - Procurement Manager	<b>Target Implementation Date:</b>	31 July 2020

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
6	<p><b>Asset Marked Items</b></p> <p>Part 9 of the PCard User Guide clearly stipulates that purchases should not be made for any item of Operational Equipment but particularly those that require asset marking. These must be sourced via Engineering and they will be attributed to their budget.</p> <p>During the audit, concerns were raised over asset marked items being purchased outside of the Engineering Department.</p> <p>A review of transactions, with narrative, between 1 April 2019 to 8 January 2020, identified 44 transactions, with a total value of £10.5k that were for items that would be classified as asset marked. Of these, 19 transactions had not been purchased by the Engineering Department (total value £985.03).</p> <p>Moreover, the PCard User Guide does not contain a comprehensive list of items that are considered as 'asset marked' which may explain the lack of compliance.</p>	<p>Failure to adhere to the PCard policy leaves the ESFRS open to both financial and reputational risk, potentially resulting in fraud and loss of faith from the public.</p>	Medium	<p>Items that must be asset marked are clearly identified on the 'How to Buy' contracted supplier order forms, which state approval must be sought from Engineering prior to purchase.</p> <p>All cardholders will be reminded of the policy in relation to asset marked goods.</p>

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<b>Responsible Officer:</b>	Claire George - Procurement Manager	<b>Target Implementation Date:</b>	30 June 2020
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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
7	<p><b>Valid VAT Receipts</b></p> <p>For some suppliers it may not be possible or very difficult to get a VAT invoice, particularly when the purchase can only be made online via card. However, we identified one instance where the payment confirmation for a hotel was uploaded as evidence, where it should have been possible for the cardholder to receive a full invoice. VAT can only be reclaimed with a valid VAT invoice (finding 12 refers).</p> <p>Given the finding above, we reviewed all transactions for hotel accommodation between 1 April 2019 to 8 January 2020. We identified 19 instances (out of 55 transactions) where VAT was recoverable but not appropriately claimed in the Smartdata system. The total value of unclaimed VAT by ESFRS for hotel accommodation for this period is £988.46.</p>	<p>If VAT is not correctly accounted for and adequate receipts are not retained this could lead to penalties and financial loss for ESFRS.</p> <p>Where VAT is not claimed or incorrect VAT is claimed, ESFRS becomes liable.</p>	Medium	Cardholders will be reminded of the importance of accurately recording and retaining VAT information and additional training/support delivered where required.
<b>Responsible Officer:</b>		Claire George - Procurement Manager	<b>Target Implementation Date:</b>	30 June 2020

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
8	<p><b>Adherence to PCard Policy</b></p> <p>Data analysis of 2,240 purchase card transactions between the period 1 April 2019 to 8 January 2020, identified that the following items had been purchased, which (potentially) contravene Part 9 of the PCard User Guide:</p> <ul style="list-style-type: none"> <li>• 35 purchases with a value of £9,319.47 for IT hardware/software. Of these, 15 purchases were made by the ITG Department which may be acceptable although this is not reflected in the PCard Policy.</li> <li>• A further 3 transactions were identified for mobile phone equipment/data.</li> <li>• A number of meals had been purchased using the PCard but due to the lack of clear purchase narrative only 22 could be clearly identified as personal subsistence.</li> </ul> <p>Items such as these could potentially be in breach of the ESFRS' PCard policy and may not be considered an appropriate use of public funds. Purchases for subsistence (meals) for an operational crew at an incident are allowable but personal</p>	<p>Failure to adhere to the PCard policy leaves the ESFRS open to both financial and reputational risk, potentially resulting in fraud and loss of faith from the public.</p>	Medium	<p>The PCA has identified where transactions have been approved which were not appropriate and has challenged.</p> <p>ITG PCard purchases are acceptable.</p> <p>Occasionally purchase of IT equipment via PCard offers the optimum value for ESFRS as opposed to passing the order through our outsource provider.</p> <p>Cardholders and approvers will be reminded of the policy in relation to IT related purchases.</p>

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	<p>subsistence, in any other situation is considered outside the scope of the PCard policy. Furthermore, best value may not be attained where items are not purchased via existing contractual arrangements.</p>			
<p><b>Responsible Officer:</b></p>		<p>Claire George - Procurement Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>30 June 2020</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
9	<p><b>Leaver Process</b></p> <p>Full reliance is placed on the purchase card holder and/or their manager to inform the Purchase Card Administrator (PCA) when a purchase card is no longer required (for example, when the cardholder has left the employment of ESFRS or their job role has changed).</p> <p>There is no corporate leavers’ process or procedure for recovering returned purchase cards. The cards may be returned to Finance or to the employee’s manager. Once notified, the PCA will remove the leavers from the live list of purchase cards and will inform the bank that leaver’s cards are no longer in use. It is important that there is a consistent process.</p> <p>Exception reporting to identify purchase inactivity, due to an officer leaving ESFRS or changing job role is not undertaken. Furthermore, the Human Resources department do not notify the PCard Administrator of staff departures or suspensions.</p>	<p>The lack of a robust leaver process could result in an employee using their card once they are no longer employed by the ESFRS.</p>	<p>Medium</p>	<p>ESFRS do not currently have a mandated Leavers Policy.</p> <p>Three staff have left since PCards were launched. Upon receipt of a PCF (personnel change form), the PCA checks the PCard database &amp; contacts the cardholder concerned where one is held, to request return of the card. In the absence of a corporate leaver’s process, this is manually coordinated by the PCA.</p> <p>Cardholders will be reminded of their responsibility to return their card, prior to leaving the Service.</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
10	<p><b>Low Value Purchase Orders</b></p> <p>The PCard Programme was designed to make it easier and more cost effective for ESFRS to make low value purchases of goods and services, for service use. Generally, individual purchases of goods and services below £1,000 are considered as low value. While a number of factors influence this figure, it is generally accepted that every transaction completed by card saves ESFRS £28.00 in purchase order and invoice processing costs.</p> <p>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. Therefore, a material reduction in low value purchase orders raised since the programme's inception has not been achieved. Results below:</p> <p>August 2019 to January 2020:</p> <ul style="list-style-type: none"> <li>• 270 - Purchase Orders &lt;£1,000</li> <li>• 96 - Purchase Orders &lt;£250</li> </ul>	<p>Where the volume of low value purchases being raised has not decreased, this could result in the PCard Programme objectives not being achieved.</p>	Medium	<p>Procurement &amp; 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.</p> <p>The planned lessons learned PCard project 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.</p> <p>The category strategies include actions to encourage adoption of PCard payments for affected suppliers and where appropriate, ESFRS will consider switching suppliers to facilitate this.</p>

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	February 2019 to July 2019: <ul style="list-style-type: none"> <li>• 231 - Purchase Orders &lt;£1,000</li> <li>• 130 - Purchase Orders &lt;£250</li> </ul>			
<b>Responsible Officer:</b>	Claire George - Procurement Manager	<b>Target Implementation Date:</b>	31 Dec 2020	

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
11	<p><b>Quarterly Spend Report</b></p> <p>Paragraph 10 of the Purchase Card Administrators Guide stipulates that each month, with a summary each quarter, a PCard spend report is circulated to the Treasurer for review.</p> <p>On request, copies of the monthly spend report were provided for review. However, a quarterly summary of PCard spend had not been collated or circulated to the Treasurer, as expected, for review, since the commencement of the PCard Programme.</p>	Inadequate reporting processes are in place resulting in a failure to identify excessive costs and trends in high spend by senior management.	Low	<p>Procurement provide a monthly breakdown of spend to the Treasurer, to identify no. of transactions, spend by cardholder, cost centre and category.</p> <p>Reporting is in the early stages &amp; this will be reviewed and agreed with the Treasurer, as we progress the lessons learned review.</p> <p>The policy will be updated to reflect monthly reporting, with KPIs fed into a Procurement Dashboard.</p>
<b>Responsible Officer:</b>		Claire George - Procurement Manager	<b>Target Implementation Date:</b>	30 Sept 2020

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
12	<p><b>Transactional Errors</b></p> <p>Throughout the audit we discovered instances where both the cardholder and reviewer had failed to adhere to ESFRS PCard Policy.</p> <p>Sample testing of ten transactions for cardholders who had the highest value in spend and/or purchase frequency identified the following:</p> <ul style="list-style-type: none"> <li>• A valid receipt was not available for one of the transactions tested.</li> <li>• VAT had not been appropriately claimed for four of the transactions sampled although valid VAT receipts were available on request.</li> <li>• There was one instance where a user had divided the transaction in order to circumvent their individual transaction limit.</li> <li>• For another transaction the receipt uploaded to the Smartdata system did not relate to the purchase.</li> </ul> <p>Moreover, all the above issues should have been identified by the reviewer during the review stage of the process in the</p>	<p>Without appropriate action taken at the review stage, this increases the risk that PCards are used contrary to the terms and conditions that the users and reviewers have agreed to.</p> <p>If VAT is not correctly accounted for and adequate receipts are not retained could lead to penalties by HMRC.</p>	Medium	<p>Approvers are required to check the receipt &amp; ascertain that all associated documents are correct.</p> <p>The PCA undertakes dip testing and challenges any errors identified. There are legitimate occasions where requirements have been disaggregated.</p> <p>Cardholders will be reminded that they must wait for a VAT invoice before reviewing.</p> <p>Procurement will send out relevant communications to offer further support &amp; training to support the accurate capture of VAT, to include guidance on the difference between a confirmation of order &amp; a VAT receipt/invoice.</p> <p>The effectiveness of the e-learning package in relation to VAT capture, will also form part of the lessons learned review.</p>

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	Smartdata system and action taken to rectify the situation at the time or prevent it reoccurring.			
<b>Responsible Officer:</b>	Claire George - Procurement Manager	<b>Target Implementation Date:</b>	30 Sept 2020	

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
13	<p><b>Timely Review &amp; Approval of Transactions</b></p> <p>All transactions must be reviewed and reconciled by the cardholder in the Smartdata system by the 7<sup>th</sup> of every month, to ensure there is sufficient time for the transactional reviewer to approve the transaction by the 10<sup>th</sup> of each month.</p> <p>Analysis of the Purchase Card Spend Report confirmed that for the 2019/20 Financial year to date, an average of 242 purchases were made per month, of these 23% of all purchases had not been either reviewed or approved on time.</p>	<p>Late authorisation of payment may result in the ESFRS' financial commitments and budgets not being fully up to date.</p> <p>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.</p>	Medium	<p>This remains an ongoing issue. Procurement continue to proactively support staff to reconcile promptly but we have seen some cultural resistance.</p> <p>Both the lesson learned review and a joint P2P review with Finance will look to identify how we can improve performance in this area. This will include assessing options for additional technological support.</p> <p>Staff will be reminded of the importance of regular &amp; prompt reconciliation.</p>
<b>Responsible Officer:</b>		Claire George - Procurement Manager in conjunction with the Procurement & Finance Manager	<b>Target Implementation Date:</b>	Reminder - 30 June 2020 P2P Review – 31 Dec 2020

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
14	<p><b>Document Retention Process</b></p> <p>Following a review of the PCard User Guide, it was established that the time frame for retaining evidence of a purchase by the cardholder, or in what format, for inspection by HM Revenue &amp; Customs (HMRC) and audit purposes is not stipulated.</p>	<p>Failure to retain adequate proof of purchases and records may result in financial penalties by HMRC.</p>	Medium	<p>Procurement will remind staff that receipts must be retained for seven years.</p>
<p><b>Responsible Officer:</b></p>		<p>Claire George - Procurement Manager</p>	<p><b>Target Implementation Date:</b></p>	<p>30 June 2020.</p>

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Ref	Finding	Potential Risk Implication	Priority	Agreed Action
15	<p><b>Ambiguity of document retention and review process</b></p> <p>Our sample testing highlighted a lack of clarity amongst the cardholders sampled over the expected process for the retention of supporting documentation.</p> <p>Cardholders were found to be keeping original copies of receipts, whereas other officers were uploading copies of receipts directly onto the Smartdata system and destroying the original copy once this action had been completed. Another officer contacted Internal Audit for advice as he was undertaking both processes (finding 14 also refers).</p>	<p>Without clear guidance on the expected process for retaining receipts, there is a risk that cardholders may not retain purchase data in consistent manner.</p> <p>Failure to retain adequate proof of purchases may result in financial penalties by HMRC.</p>	Medium	Procurement will update the User Guide to include clearer guidance.
<b>Responsible Officer:</b>		Claire George - Procurement Manager	<b>Target Implementation Date:</b>	31 July 2020

# Appendix A

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

## Management Responsibilities

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.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.