Internal Audit Report

ESFRS Procurement Cards - Follow-Up Audit 2020/21

Final Report

Assignment Lead: Danielle Robinson, Senior Auditor
Assignment Manager: Paul Fielding, Principal Auditor
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Draft Report Distribution List

Duncan Savage, Assistant Director - Resources & Treasurer
Claire George, Procurement Manager
Patricia Steel, Procurement Card Administrator
Chris Watkins, Senior Financial Services Administrator

Final Report Distribution List

As per draft report circulation

Name of Authority - Internal Audit Key Contact Information

Chief Internal Auditor: Russell Banks, ☎ 07824 362739, ✉ russell.banks@eastsussex.gov.uk
Audit Manager: Nigel Chilcott, ☎ 07557 541803, ✉ nigel.chilcott@eastsussex.gov.uk
Anti-Fraud Hotline: ☎ 01273 481995, ✉ confidentialreporting@eastsussex.gov.uk

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.   A review to provide assurance that PCards were only issued to appropriately authorised and trained staff and were being used only to purchase goods and services that were wholly, exclusively and necessary for the use of East Sussex Fire & Rescue Service (ESFRS) was undertaken in January 2020. The audit opinion given was Partial Assurance. The audit contained fifteen actions agreed with management, including twelve rated as medium priority.

1.3.   The purpose of this audit was to follow-up on the previously agreed actions to ensure that these have been implemented.

1.4.   This audit is part of the agreed Audit Plan for 2020/21.

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 - Follow-Up Audit 2020/21**. 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 been able to provide **Partial Assurance** over the controls operating within the area under review because:

4.2.   Of the fifteen previously agreed actions from the 2019/20 audit report to improve controls, only five of the actions have been addressed. Five actions have been fully implemented, four actions have been partially implemented and six medium risk actions still remain outstanding.

4.3.   Due to COVID-19, the planned Procure to Pay review, in conjunction with the Finance Team, to identify how ESFRS can improve performance in this area has not been undertaken. As a result of this several of the actions from the 2019/20 audit have not been implemented as expected. The review is now due to commence in the first quarter of the 2021/22 financial year. Areas still requiring improvement as a result of the review not taking place are summarised below, further details can be found in the main body of this report:

- The reinforcement of the mandatory training for all transactional approvers;
- The establishment of a clear purchasing framework is required to ensure that the objectives of the PCard Programme are achieved;
- The development of a robust leaver process;
- Publication of clear guidance, including the reinforcement to staff on the Authority's document retention requirements;
- Increased compliance by cardholders and approvers for the accurate and timely reconciliation of transactions; and
- Training to support the accurate recording of VAT by cardholders and approvers;
- The Publication of clear guidance on purchases that could potentially contravene the PCard programme.

4.4.   There following areas of compliance and good practice were identified, which ESFRS should look to maintain:

- The identification and reduction of cardholders with multiple approvers.
- Amendments to transactional limits and personnel data i.e. reviewer or approver and related cost centre information are now captured and recorded at the point of change.

- A quarterly summary of PCard spend is now collated and circulated to the Treasurer for strategic oversight.

Audit Opinion Direction of Travel		
Improved	**Unchanged**	**Reduced**

5.

5. Action Summary

5.1. There are 11 findings repeated in this report from the previous audit.

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation	0	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	6	1, 2, 4, 5, 7, 9
Low	Represents good practice but its implementation is not fundamental to internal control	4	3, 6, 8, 10
	Total number of agreed actions	**10**	

6. Implementation Action Tracking from Previous Audit

Original Agreed Action	Original Risk Rating	Implementation Status	Revised Risk Rating
E-Learning for Approvers 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. We will also ensure that any future iterations of the policy reflect this.	Medium	Action not Implemented	Medium
Substitute Approvers 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. Procurement will seek to mitigate with the introduction of a second reviewer procedure, in the absence of a second approver.	Low	Action Implemented	N/A
Multiple Approvers 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. The PCA will explore if further cardholders can be identified to reduce instances.	Low	Action Implemented	N/A
Transactional Limits 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.	Medium	Action not Implemented	Medium
Leaver Process ESFRS do not currently have a mandated Leavers Policy. Three staff have left since PCards were launched. Upon receipt of a PCF (personnel change form), the PCA checks the PCard database & 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.	Medium	Action Partially Implemented	Low

Cardholders will be reminded of their responsibility to return their card, prior to leaving the Service.			
Document Retention Process Procurement will remind staff that receipts must be retained for seven years.	Medium	Action not Implemented	Medium
Ambiguity of document retention and review process Procurement will update the User Guide to include clearer guidance.	Medium	Action not Implemented	Medium
Transactional Limit Changes 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. In future, the data recorded will include transaction limit amendments, change of personnel i.e. reviewer or approver and related cost centre information.	Low	Action Implemented	N/A
Timely Review & Approval of Transactions This remains an ongoing issue. Procurement continue to proactively support staff to reconcile promptly but we have seen some cultural resistance. 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. Staff will be reminded of the importance of regular & prompt reconciliation.	Medium	Action Partially Implemented	Low
Transactional Errors Approvers are required to check the receipt & ascertain that all associated documents are correct. The PCA undertakes dip testing and challenges any errors identified. There are legitimate occasions where requirements have been disaggregated. Cardholders will be reminded that they must wait for a VAT invoice before reviewing. Procurement will send out relevant communications to offer further support & training to support the accurate capture of VAT, to include guidance on the difference between a confirmation of order & a VAT receipt/invoice. The effectiveness of the e-learning package in relation to VAT capture, will also form part of the lessons learned review.	Medium	Action not Implemented	Medium

Asset Marked Items 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. All cardholders will be reminded of the policy in relation to asset marked goods.	Medium	Action Partially Implemented	Low
Valid VAT Receipts Cardholders will be reminded of the importance of accurately recording and retaining VAT information and additional training/support delivered where required.	Medium	Action not Implemented	Medium
Adherence to PCard Policy The PCA has identified where transactions have been approved which were not appropriate and has challenged. ITG PCard purchases are acceptable. Occasionally purchase of IT equipment via PCard offers the optimum value for ESFRS as opposed to passing the order through our outsource provider. Cardholders and approvers will be reminded of the policy in relation to IT related purchases.	Medium	Action Partially Implemented	Low
Low Value Purchase Orders 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 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. 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.	Medium	Action Implemented	N/A
Quarterly Spend Report Procurement provide a monthly breakdown of spend to the Treasurer, to identify no. of transactions, spend by cardholder, cost centre and category. Reporting is in the early stages & this will be reviewed and agreed with the Treasurer, as we progress the lessons learned review. The policy will be updated to reflect monthly reporting, with KPIs fed into a Procurement Dashboard.	Low	Action Implemented	N/A

7.   **Detailed Findings and Agreed Actions**

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	**E-Learning for Approvers** Following the 2019/20 audit, it was agreed that the Procurement Team would reinforce the message to all approvers that the e-Learning training is mandatory, and that approvers must successfully complete the e-learning training prior to undertaking the activity. Our current review identified that the agreed action had not been implemented as expected, and therefore, has been repeated as part of the current audit.	Where training is not undertaken by transactional approvers, this increases the risk that purchases are not effectively scrutinised for adequacy or appropriateness.	Medium	1. Approvers will be reminded that training is mandatory. 2. Staff who have not completed will be required to undertake by the end of July 2021.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	1. Implemented 2. Completion of E-learning 31 July 2021

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	**Transactional Limits** The 2019/20 review identified that a specific single transaction value and a monthly maximum spend value for cardholders had not been set. Following the original review, we were advised that single purchase limit for all new cardholders would be capped to £1,000 and the monthly maximum spend value set to £5,000. Current analysis of cardholder transactional limits identified that as of the 9 March 2021, 37 out of 121 cardholders had single transactional limits more than £1,000, with three cardholders having a limit of £10,000. This is an increase from the original review where we identified that as of 6 January 2020, 26 out of 106 cardholders had single transaction limits in excess of £1,000. Furthermore, 38 cardholders had monthly transactional limits exceeding the recommended limit of £5,000, the highest being £20,000. This is a decrease from the original review where we identified that as of 6 January 2020, 39 out of 106 cardholders had maximum monthly spend limits in excess of £5,000.	The lack of a clear purchasing framework could result in the objectives of the PCard Programme not being achieved.	Medium	A clear framework is now in place - standard monthly and per transaction limits can be varied by the approving manager requesting an increase, which is subject to approval by the Procurement Team. No cards are routinely approved or issued with a limit which exceeds £5,000, unless there are evidenced, exceptional circumstances, for example, we can identify that the Department linked to the card has legitimate grounds for occasional use at a higher level (e.g. to support Operational Resilience). The revised Procurement Standing Orders (PSOs), was approved by SLT in April 2021. This prescribes that Procurement Cards are the preferred method of purchasing for all low value and/or one-off purchases, permissible up to a value of £5,000.

	Despite maximum transactional limits on cardholders being introduced, we have continued to see an increase in those being assigned single transactional limits exceeding the agreed amounts. Furthermore, these limits have not been documented in the PCard User Guide.		
Responsible Officer:	Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	**Leaver Process** The 2019/20 audit identified that ESFRS do not have a robust Leaver process in place. 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. On review, we identified that cardholders had not been reminded of their responsibility to return their card to the PCard Administrator (PCA), prior to leaving the Service, as agreed. Moreover, a robust leaver process has not been developed since the original review. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current audit.	The lack of a robust leaver process could result in an employee using their card once they are no longer employed by the ESFRS.	Low	All Personnel Change Forms (PCFs) are automatically received by Procurement to enable us to identify any change to the establishment, including notification of leavers. When a PCF is received, the PCA contacts the leaver to advise the PCard must be returned & follows up as necessary. There have been no instances of a card not being returned or any subsequent misuse. Cardholders will be reminded of their responsibility to return their card, prior to leaving the Service.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
4	**Document Retention Process** The 2019/20 review of the PCard User Guide, established that the time frame for retaining evidence of a purchase by the cardholder, or in what format, for inspection by HM Revenue & Customs (HMRC) and audit purposes is not stipulated. Following the audit, it was agreed that a reminder would be issued to staff advising that receipts must be retained for seven years. Our review identified that a reminder had not been issued to staff as expected. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current audit.	Failure to retain adequate proof of purchases and records may result in financial penalties by HMRC.	Medium	VAT Receipts are uploaded & retained within the SDOL software platform and are subject to review by the Approver. Cardholders will be reminded of their responsibility to retain receipts. The revised PSOs include reference to the mandated retention schedules for all PCard related documentation.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
5	**Ambiguity of document retention and review process** The 2019/20 audit highlighted that there was a lack of clarity amongst the cardholders sampled over the expected process for the retention of supporting documentation. It was agreed that the PCard User Guide would be updated to include clearer guidance for document retention and review process. Our review identified that the User Guide had not been updated as expected. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current audit.	Without clear guidance on the expected process for retaining receipts, there is a risk that cardholders may not retain purchase data in consistent manner. Failure to retain adequate proof of purchases may result in financial penalties by HMRC.	Medium	The User Guide will be updated to include document retention requirements, which are also now reflected in the PSOs.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	30 June 2021

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
6	**Timely Review & Approval of Transactions** 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. The PCA does issue reminder e-mails to individual cardholders and approvers where reconciliations have not taken place. However, all staff have not been reminded of importance of undertaking prompt transactional reconciliations as expected. Furthermore, the Procure to Pay review, to improve performance in this area, has not been undertaken as expected. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current audit.	Late authorisation of payment may result in the ESFRS' financial commitments and budgets not being fully up to date. 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.	Low	Cardholders will be reminded of their responsibility to review & approve in a timely manner. The PSOs now include a specific clause to reiterate the importance of this - Section 1.5.2, Internal Customers, responsibilities include: q) Reviewing and approving Procurement Card transactions in a timely manner.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
7	**Transactional Errors** Throughout the 2019/20 audit we discovered instances where both the cardholder and reviewer had failed to adhere to ESFRS PCard Policy. The current review identified that cardholders have not been reminded of the requirement to wait for a VAT invoice before reviewing their transactions. Furthermore, the Procurement Team have not sent out relevant communications to offer further support and training to support the accurate capture of VAT, nor has the e-learning package been developed to include VAT capture, as expected. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current audit.	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. If VAT is not correctly accounted for and adequate receipts are not retained could lead to penalties by HMRC.	Medium	1. Cardholders will be reminded of their responsibility to wait for a VAT invoice before reviewing transactions. 2. Enhanced guidance will be provided via an e-learning package, with support from Finance, as part of the wider review.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	1. Implemented 2. E-learning 31 Dec 2021

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
8	**Asset Marked Items** During the 2019/20 audit, concerns were raised over asset marked items being purchased outside of the Engineering Department. Furthermore, 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. On discussion, the Procurement Manager confirmed that items that are considered '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. Following the 2019/20 audit, it was agreed that all cardholders would be reminded of the policy in relation to asset marked goods. On review, a reminder had not been issued to staff as expected. Therefore, the agreed action from the original audit has been repeated as part of the current review.	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.	Low	The How to Buy area includes clear guidance to the process for ordering Asset Marked goods and lists the items which require it. Staff are directed to contact Engineering for all asset and marked operational equipment. Staff are directed to the standard template ordering forms which cardholders use to order consumables & which denote which items must be asset marked. The revised PSOs direct staff to the Policy and the How to Buy area – Section 2.2 Using Procurement Cards Analysis of the examples provided and spend data has shown no examples where marked goods have been ordered inappropriately. Cardholders will be reminded of their responsibility in relation to Asset Marked goods.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
9	**Valid VAT Receipts** Following the 2019/20 audit it was agreed that cardholders would be reminded of the importance of accurately recording and retaining VAT information and additional training/support delivered where required. Our current review identified that a reminder had not been issued to staff as expected. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current audit.	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.	Medium	Cardholders will be reminded of their responsibility to retain VAT receipts for 7 years. The revised PSOs include reference to the mandated retention schedules for all PCard related documentation.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
10	**Adherence to PCard Policy** As part of the 2019/20 audit, data analysis was undertaken which identified issues in contravention to Part 9 of the PCard User Guide. Following the 2019/20 audit, it was agreed that Cardholders and approvers would be reminded of the policy in relation to IT related purchases. Our review identified that a reminder had not been issued to staff as expected. Therefore, the agreed action from the 2019/20 audit has been repeated as part of the current review.	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.	Low	Cardholders will be reminded of their responsibilities relating to the purchase of IT equipment. The How to Buy area includes clear guidance relating to IT equipment & is clear that P/Cards are prohibited in this area. The revised PSOs direct staff to the Policy and the How to Buy area – Section 2.2 Using Procurement Cards Analysis of the data has shown no examples of cards being used inappropriately.
Responsible Officer:		Claire George - Procurement Manager	**Target Implementation Date:**	Implemented

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	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.
Minimal Assurance	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.