



Kilkenny County Council

Internal Audit Report [REDACTED] **Review of Low Value Purchase Card Payments** **Date:** 26th September 2017

**Report
Distribution**
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Executive Summary

Kilkenny County Council (the “Council”) use Low Value Purchase Cards (LVPC) to purchase goods and services to the value of over €1.4m in 2016. Over 7,300 LVPC transactions were processed in 2016 by 124 cardholders. In comparison to raising a Purchase Order, the use of LVPC’s is a more efficient and economical method of payment for purchasing low value goods. It is important that the controls inbuilt in the Purchase Order process are not diminished by the use of LVPC’s. The Council processes LVPC payments using an online card management system called Smart Data Online (SDOL). This system allows office based staff (Reviewers) to match invoices to card transactions. The Reviewers allocate job codes to all transactions on the SDOL system. Once transactions are reviewed, the line managers of each section (Approvers) approve the transactions on SDOL. All approved transactions are exported to the Agresso Financial Management System on a monthly basis by the Card Administrator in the Finance Dept.

Objectives

The objective of the audit was to assess whether sufficient controls are in place to ensure that payments processed using LVPC’s are authorised and valid.

Approach

Our approach involved reviewing the robustness of the documented policies and procedures (design effectiveness) and performing testing to assess whether documented policies and procedures were adhered to for a sample of transactions (operating effectiveness).

Scope & Limitations of scope

The scope of our audit included LVPC transactions for the period January 2017 to July 2017. A sample number of transactions were examined to ensure proper records are being maintained and expenditure incurred was of a business nature only. The scope of this review did not assess the risks and controls surrounding Directors' credit cards spending. These are operated by a separate system to the LVPC cards.

Co-operation of Management and staff.

Internal Audit received full co-operation from Council Management and staff throughout the course of this review and would like to thank them for their assistance.

Audit Risk

- Risk that cards are used for non-business purposes.
- That there are not clear segregation of duties for approvers and reviewers and that these are not updated when roles changes, the risk that the cardholder is also the approver etc.
- Monthly LVP spend is not reviewed by budget holder on a monthly basis.
- Risk that leavers from employment retain purchase card assigned to him/her.
- Risk that LVP transactions are not recorded correctly, insufficient back up submitted and retained to demonstrate a clear audit trail.
- Risk that spend limits are not outlined in policy, risk that people are not spending in accordance with limits, risk that people are splitting transactions to overcome spend limits
- Risk that Staff are assigned cards but no longer require them, due to job description changing etc.

*Summary of Findings **

Finding

1. Lack of formally documented policies and procedures.
2. Inadequate segregation of duties over Low Value Purchase Credit Card.
3. Lack of controls relating to Reverse Charge VAT Invoices and RCT Invoices.
4. Controls over card administration are not robust.
5. Certain expected payment and authorisation controls are not in place.

** This summary should not be read in isolation but in conjunction with control weakness in certain areas identified and detailed below.*

Detailed Findings & Recommendations

1. Lack of formally documented policies and procedures

<i>Finding</i>	<i>Implication</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p>Formally documented policies and procedures are not in place in relation to Low Value Purchase Card Payments.</p> <p>No procedure manual for SDOL in place for card reviewers/approvers.</p>	<ul style="list-style-type: none"> • Cardholders are not aware of the councils policy in relation to LVPC's. • Reviewers and Approvers of card transactions on SDOL system not aware of their role and responsibility. 	<ul style="list-style-type: none"> • Formally document policies and procedures in respect of LVPC payments. This should include processes and controls in respect of: <ul style="list-style-type: none"> – Roles and responsibilities of each cardholder and approver. – Procedures for reviewing and approving on SDOL system. – Controls in respect of ordering, receipting, payment and monitoring controls; – Councils policy in relation to all online purchases • Distribute the policy to all cardholders, card reviewers and approvers. • Monitor compliance with the policy on a regular basis and address any instances of non-compliance. 	<p>Policy & Procedure Document for LVPC has been drafted and will be adopted by management in Q1.</p> <p>To be completed in early Q2.</p> <p>Additional compliance checks put in place from 10/1/2018 and regular checks to be scheduled thereafter.</p>

2. Inadequate segregation of duties over payments

<i>Finding</i>	<i>Implication</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p>Internal Audit noted a number of users with access to perform combinations of tasks which should be segregated.</p> <ul style="list-style-type: none"> 8 cardholders have access to approve their own Low Value Purchase Credit Card payments. 	<ul style="list-style-type: none"> Inadequate segregation of duties increases the risk of fraud or error occurring and such fraud or error going undetected. 	<ul style="list-style-type: none"> Adequate segregation of duties must be put in place to ensure that no one person is responsible for the purchasing and approving of any item. 	<p>All Cardholders have now been checked against Approvers listing and amendments made to system to ensure that no one person has responsibility for purchasing and approving any item, completed 15/1/2018.</p>

3. Lack of controls in relation to VAT and RCT

<i>Finding</i>	<i>Implication</i>	<i>Recommendation</i>	<i>Management Action Plan</i>
<p>Internal Audit noted the following in relation to VAT and RCT.</p> <ul style="list-style-type: none"> Purchases from EU countries (mainly UK) where VAT was paid in the country of supply. No Irish VAT was accounted for. Purchases for services that are subject to the reverse charge mechanism. No VAT paid. Payment of invoices that are subject to RCT. Purchases not subjected to normal RCT procedures. 	<ul style="list-style-type: none"> Incorrect VAT return submitted to Revenue. Possible VAT liability to Revenue. Overpayment of VAT in other countries. 	<ul style="list-style-type: none"> If possible, an automated system should be in place which will highlight to the Finance Dept. non Irish LVPC payments. Training should be provided to cardholders on the implication of using the LVPC to purchase goods in other countries. Purchasing of goods from other countries should be restricted unless prior approval is received from Finance Dept. 	<p>Automated system in place to capture Stg & USD transactions. Reminder also sent to all sections requesting any invoices outside of the Republic of Ireland are forwarded to the Card Administrator for follow up with Finance monthly.</p> <p>Training to be provided as part of new Policy roll out.</p>

4. Controls over card administration are not robust

Finding	Implication	Recommendation	Management Action Plan
<p>Internal Audit noted the following points in relation to user card administration processes:</p> <ul style="list-style-type: none"> • Policies, procedures and controls over user card administration have not been formally documented; • Cards belonging to cardholders who leave the organisation are not cancelled immediately. • 21 cardholders had 5 or fewer transactions in 2016. There is no regular review of the need of staff to require a card. • Single transaction limits on cards range from €100 to €10,000. In many cases, there is no relation between the transaction limit on a card and the actual value of purchases on the card. There is no regular review of transaction limits. • 29 suppliers were paid in excess of €10k from LVPC's in 2016. 1 supplier was paid in excess of €100k. No record of a tax clearance cert for 5 of the 29 suppliers paid over €10k. • There are no regular spot checks being carried out. • There are delays every month in exporting LVPC transactions to the Agresso Financial Management System. Internal Audit acknowledges that these delays are not the fault of the card administrators. The delays are caused by a failure of sections to approve their transactions by the deadline day each month. • Card Administrator can authorize a new card application. 	<ul style="list-style-type: none"> • The council is exposed to unnecessary risks if active cards are available to former employees. • Without regular reviews and spot checks, the controls in the system are weakened. • Public procurement policy stipulates that all public service contracts in excess of €10k over a 12 month period must be required to produce a valid tax clearance certificate. • Delays in recording monthly LVPC transactions results in incomplete financial data. • Potential for card administrator to fraudulently obtain a LVPC. 	<ul style="list-style-type: none"> • Formally document a LVPC policy and associated procedures. These procedures should define the controls over card applications, setup, reviews and monitoring of the process. • Monthly spot-checking desktop exercise should be undertaken prior to exporting transactions. This should involve querying with approvers payments to unknown suppliers, on-line payments and high value payments. Quarterly on site spot reviews should also be carried to ensure cardholders are adhering to policy. • HR to advise card administrator when staff are leaving the organisation or if staff are being transferred. • Review cardholder spend and activity to ensure employee requires a card and the card has correct transaction limit. • All new LVPC applications should be authorised by Head of Finance and/or Financial/Management Accountant. 	<p>Policy & Procedure Document for LVPC drafted and will be adopted by management in Q1.</p> <p>On site spot checks have commenced 10/1/18 and will be carried out regularly.</p> <p>HR agreed to advise card administrator and it is currently been included in HR's 'leavers policy'</p> <p>Regular review by Card Administrator.</p> <p>All new applications are authorised by HOF since Sept 2017 and applications for new cards have to be approved by the relevant DOS in each section.</p>

5. Certain expected payment and authorisation controls are not in place

Finding	Implication	Recommendation	Management Action Plan
<p>Internal Audit noted the following observations on review of controls over purchasing and payment approval:</p> <ul style="list-style-type: none"> The main difference in authorisation between LVPC payments and Purchase Order payments is that authorisation is issued after the transaction has been completed. Insufficient backup documentation. In some cases there was no invoice/receipt and other cases there were just till receipts with no details of goods acquired. Inadequate detail on the invoices/receipts. No signature from the cardholder or details as to what the payment relates to. Certain approvers are too far removed from the nature of work that the purchase relates to. In some cases, approvers are approving transactions for different sections of the council. Excessive transactions to approve each month. Sections such as Housing & Mach Yard have in excess of 100 LVPC transactions to approve each month. Transactions were noted where transactions were split to overcome the transaction limit on the card. 	<ul style="list-style-type: none"> Potential misuse of card due to lack of authorisation controls in place Card being used for non business purchases. Insufficient audit trail due to lack of back up documentation. Potential fraud payments being undetected due to large number of payments to approve at month end. Potential fraud payments going undetected due to approver not being familiar with nature of the cardholders work. 	<ul style="list-style-type: none"> LVPC purchases should be pre approved by immediate supervisors by using requisition forms. This could be done through a manual requisition book as exists in some sections or by completing a LVPC Requisition form (Appendix B). It is important that the cardholders supervisor is aware of the nature of the work carried out by the cardholder. This form should be attached to the invoices for the line manager to approve on SDOL. Internal Audit accepts that pre approval could make the process cumbersome in sections with a high volume of transactions. In areas with high usage, frequently used suppliers could be excluded from the requisition process. Instead, cardholders should complete a LVPC Payments form each month with details of LVPC payments made (See Appendix A). This should be countersigned by the cardholders immediate supervisor. It is important that the cardholders supervisor is aware of the nature of the work carried out by the cardholder. This form should be attached to the invoices for the line manager to approve on SDOL. Sections with a high volume of transactions should be submitted for approval on a weekly basis. i.e. Housing Section and Mach Yard. Cardholders who consistently fail to adhere to responsibilities outlined in policy documents such as complying with transaction limits and submitting invoices on time should have their card cancelled. 	<p>Following consultation on new LVPC Policy & Procedure document it was recommended that a LVP Transaction Log be completed by the cardholders detailing all LVPC transactions.</p> <p>Introduction of LVPC transaction log as part of new procedures</p> <p>To be introduced as part of new LVPC Policy Procedures</p> <p>To be introduced as part of new LVPC Policy & Procedures</p>

6. Training is not provided to staff in order to safeguard against potential fraud in relation to LVPC payments

Finding	Implication	Recommendation	Management Action Plan
<ul style="list-style-type: none"> • The Council lacks formal procedures to ensure that staff are aware of key risks in relation to LVPC payments • No training is provided to staff prior to card being issued. • No training is provided to reviewers/approvers in relation to Reverse Charge VAT invoices and RCT invoices. 	<ul style="list-style-type: none"> • Potential for fraud due to cardholders lack of awareness of the key risks in relation to LVPC's. • Incorrect VAT returns made to Revenue. 	<ul style="list-style-type: none"> • Establish formal policies and procedures to ensure that staff are aware of key risks in relation to LVPC payments. • Training should be provided to staff prior to card being issued to inform them of the importance of ensuring the following items are safeguarded against loss, theft and unauthorised use: <ul style="list-style-type: none"> ○ Card No. ○ Card PIN no. ○ SDOL Password • Training should be provided to reviewers/approvers in relation to Reverse Charge VAT invoices and RCT invoices. • Provide awareness training to all cardholders on a regular basis. 	<p>To be included as part of training on new Policy & Procedures</p> <p>Card Administrator goes through the card usage and safeguarding against loss, theft and unauthorised use prior to issue of card to the cardholder. Cardholder is also given details on the card usage etc.</p> <p>Part of training on new LVPC Policy & Procedure</p> <p>Will be provided as part of training on new Policy & Procedure and on a regular basis thereafter.</p>

Appendix A

LVPC CARD TRANSACTIONS

Month _____
Cardholder Name _____
Section _____

Transaction Date	Supplier	Reason for Purchase	Ref No.	Job Code	Amount

I confirm that the above goods were purchased in accordance with Kilkenny County Councils policy on Low Value Purchase Card Purchases.

Cardholder Signature _____

Date _____

Supervisor Signature _____

Date _____

Appendix B

LVPC Requisition Form

Cardholder Name _____
Section _____

Date	Supplier	Reason For Purchase	Amount

Cardholder Signature _____

Supervisor Signature _____ Date _____

*Please note that requisition must be approved prior to purchase.
This form should be attached to the paid invoice and forwarded to your reviewer.*

Appendix C – 2016 LVPC Payments to Suppliers >€10,000

#	Supplier Name	No. of Trans	Euro
1	FARM & INDUSTRIAL SUPP	451	106,083
2	MW HIRE SERVICES	365	89,643
3	BENNETTSBRIDGE PARTS	161	74,554
4	TC TYRES	191	67,203
5	FRESHFORD GARAGES LTD	262	55,618
6	GPT PLANT & TOOL HIRE	57	55,167
7	KILKENNY MOTOR TAX (KCC)	132	53,859
8	HIGHWAY SAFETY DEVELOP	144	49,887
9	CHADWICKS	469	47,353
10	DNK AUTO ELECTRICAL	142	40,021
11	MCCARTHY COMMERCIALS L	129	37,521
12	KILKENNY HYDRAULICS (DTC Engineering)	92	27,910
13	BRETTS HARDWARE & LOCK	268	23,926
14	COPYMOORE	97	22,546
15	KILKENNY BUILDER	194	19,934
16	THE PAINT POT	132	17,509
17	METAL WORK AND MAINTEN	17	15,708
18	CAMPIONS GARAGE LTD	24	15,602
19	KD(GARAGE)SERVICES LTD	21	14,629
20	TREACYS HOMEVALUE HARD	135	14,431
21	LANGTONS HOTEL BAR	79	14,176
22	KILKENNY TRUCK CENTRE	56	13,501
23	GPT	18	12,946
24	WWW ANTALIS IE	54	12,288
25	SUREHAUL (IRELAND) LTD	19	12,053
26	MICHAEL LYNG MOTORS	33	10,877
27	JOHN BRENNAN MACHINERY	81	10,549
28	HEATMERCHANTS KILKENNY	227	10,531
29	BTW KILKENNY	55	10,118

Appendix D – 2016 LVPC Payments by Section

Section	No. of Trans	Euro
MACHINARY YARD	2,050	574,781
HOUSING TECH	1,550	150,345
THOMASTOWN AO	253	102,441
CASTLECOMER AO	757	91,184
SANITARY	514	80,263
KILKENNY AO	280	57,418
POST ROOM	289	55,298
IT	249	54,031
FIRE STATION	280	53,339
NEWRATH AO	199	40,463
CALLAN AO	75	29,965
CIVIL DEFENCE	87	23,212
PARKS	112	21,465
FACILITIES MANAGEMENT	65	17,465
CORPORATE	103	15,855
ARTS	91	10,322
TOURISM	117	8,995
LIBRARY	90	5,620
ENVIRONMENT	53	4,372
COMM & ENT	50	3,879
HOUSING ADMIN	25	3,383
HR	39	3,378
LEO	14	1,605
ECONOMIC DEVELOPMENT	9	537
PLANNING	10	327
TOTAL	7,361	1,409,943

