

APPENDIX E

INTERNAL AUDIT REPORT

LEICESTERSHIRE FIRE AND RESCUE SERVICE

REGIONAL PROCUREMENT CARD

MARCH 2007

**Produced by: James Duffy
Reviewed by: Scott Brownlow
Date: March 2007**

INTERNAL AUDIT REPORT
LEICESTERSHIRE FIRE AND RESUE SERVICE
REGIONAL PROCUREMENT CARD
MARCH 2007

1. INTRODUCTION

- 1.1 A review of the Leicestershire Fire and Rescue Service (LFRS) procedures for the trialling and operation of the Government's Regional Procurement Card was undertaken as part of the 2006/2007 Audit Plan.
- 1.2 The LFRS's procurement card has been supplied by Barclaycard international. Procurement Cards are currently on a trial basis and the LFRS is one of the chosen 6 authorities.
- 1.3 The LFRS has been running the scheme since October 2006. There are currently three cards in operation they are held by the ICT Co-ordinator, the Fleet manager and the Senior Clerk who both work in the vehicle workshops. The credit limits set on the cards are £4000 with a single transaction limit of £2000.

2 RISKS AND ASSOCIATED CONTROL OBJECTIVES

- 2.1 Our approach is to firstly identify any potential threats facing the system and agree priorities with the appropriate manager, so that audit resources are concentrated on the higher risk areas. Once the potential threats have been agreed we seek to confirm controls have been built into the system and they are sufficient and adequate to prevent, eliminate or minimise the threats. The threats shown in this report are potential risks and are not intended to show what is actually happening within the system.
- 2.2 For this audit, the risks identified were: -

1. Financial loss

There is a financial risk, with the effect that there is a financial loss to the Service as a result of card misuse, be it intentional or otherwise.

This could be caused by:

- use of card to fraudulently acquire goods for private use
- supplier fraud (use of card to procure items, but goods never received)

2. Reputational damage

There is a reputational risk, with the effect that the Service receives adverse publicity.

These could be caused by:

- card misuse, be it intentional or inadvertent
- theft of card / loss of card

We consider the objectives of the controls are to ensure that: -

1. The card is used in appropriate and authorised circumstances only.
2. The cards are retained securely at all times.
3. Cards are distributed only after consideration of business need and suitable approval.
4. Expenditure incurred on the card is promptly and accurately settled each month.
5. Card expenditure is promptly applied to the central accounting system.

Both the threats and the control objectives for this audit were discussed and agreed with: -

Paul Linnett - Senior Financial Administration Officer
Leicestershire Fire and Rescue Service

3 **SCOPE**

- 3.1 The audit involved an appraisal of the systems and procedures to monitor the usage and usefulness for one out of the three procurement cards currently being used.
- 3.2 The following areas were examined as part of the review:
 - Procedures for considering and approving (rejecting) additional card holders
 - Using the cards to procure goods and services
 - Settling the balance on the cards' accounts
 - Physical security of the cards
- 3.3 Outside the scope of this audit were the authority's credit cards.

4 **PROCEDURE**

- 4.1 Discussions were held with the following staff to ascertain the procedures in place for the management and operation of the system: -
 - Paul Linnett – Senior Financial Administration Officer
 - Vicky Jeffs – ICT Co-ordinator
- 4.2 The audit centred on procedures operated by the Senior Financial Administration Officer for monitoring that the operational rules governing the use of the card, as per the contracts that had been signed by cardholders, were being followed.
- 4.3 Where an absence of control or an area of weakness was identified, an appropriate recommendation for improvement has been made.

- 4.4 Within the report conclusions (section 6); an overall opinion is given which provides a level of assurance about the adequacy and effectiveness of the system's internal controls.

5 **FINDINGS**

- 5.1 For those areas audited that we consider it is necessary to report our findings, the table (appendix 1) shows the controls we would expect to find in place, what was found, any perceived risks and our suggested recommendation to improve the control within the system. A **HI** symbol is denoted against a recommendation we judge as having a greater importance based on its attributed risk.

6 **CONCLUSIONS**

- 6.1 The Service has a good system of control whereby monthly statements are agreed to transaction logs, to ensure that charges to the card are accurate and complete. However, in the medium-term future, the Service should consider the true worth of these transaction logs and whether there is scope from an **efficiency** viewpoint to do away with the keeping of such logs altogether (i.e. is the benefit derived from keeping them worth the time spent maintaining them).

OVERALL OPINION

Based upon the answers provided during the audit and the testing undertaken, **substantial assurance** can be given that the internal controls in place to reduce exposure to those risks currently material to the system's objectives, are adequate and are being managed effectively. Although a number of important recommendations to bring about improvements have been made, none of these have a "high importance" rating signifying that a particularly serious control weakness has been identified.

7 **ACTION PLAN**

Rec'n. Ref.	Ref. to Finding No.	Responsibility	Proposed Implementation Date (by end of)	Management Response
7.1	5.4	Adam Stretton – Head of Finance	April 2007	Ref 5.4 – I agree with the recommendation and the Senior Financial Administration Officer will undertake appropriateness checks with a date and signature. I note that initial undertaking agreements sent with guidance notes have been signed by the procurement officers and include a certifying statement about appropriate use of funds.

7.2	5.5	Adam Stretton – Head of Finance	April 2007	Ref 5.5 – I agree with the recommendation, it will be for the Assistant Accountant and Accounts Assistant to reconcile the bank statements to the procurement card statements.
7.3	5.6	Adam Stretton – Head of Finance	April 2007	Ref 5.6 – I agree with the recommendation, upon receipt of transaction logs not accompanied by a VAT receipt, the Senior Financial Administration Officer will immediately follow up and record actions.

APPENDIX 1

Ref. No.	Rec No.	Control Objective	Findings	Risk	Recommendation
5.1		The card is used in appropriate and authorised circumstances only.	Nothing to Report	None	None
5.2		The cards are retained securely at all times.	Nothing to Report	None	None
5.3		Cards are distributed only after consideration of business need and suitable approval.	Nothing to Report	None	None
5.4	7.1	Expenditure incurred on the card is reasonable and also promptly and accurately settled each month.	Whilst it is understood that the validation of the transaction logs takes place on a monthly basis no evidence exists to confirm such checks are carried out.	Inappropriate / unauthorised goods could be purchased with the card and this may not be identified by finance staff.	The Senior Financial Administration Officer should evidence any checks that are carried out on the transaction logs with the date and a signature.
5.5	7.2	Expenditure incurred on the card is reasonable and also promptly and accurately settled each month.	There is no evidence that bank statements are checked and certified by an appropriate member of staff.	Amounts debited from the bank account may not reconcile with card statements. Any differences may not be immediately identified and followed-up.	The Senior Financial Administration Officer should evidence any checks that are carried out on the bank statements with the date and a signature when these took place.

5.6	7.3	VAT is reclaimed in full, where permissible.	VAT receipts were not been obtained for two qualifying purchases out of the sample of nine tested. In this instance VAT had not been recovered.	VAT cannot be legitimately reclaimed in these circumstances. As a result, a greater amount is charged to the budget than is necessary.	VAT receipts should be obtained wherever possible to enable the organisation to reclaim VAT on any qualifying purchases.
-----	-----	--	---	--	--