

Western Australian Auditor General's Report



Controls Over Purchasing Cards



Report 4: April 2017

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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April 2017



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

CONTROLS OVER PURCHASING CARDS

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Across government benchmarking audits build on the annual financial audits of all agencies. We conduct these audits at a sample of agencies using more detailed testing than is required for the annual financial audits.

This audit assessed whether agencies have effective controls over expenditure incurred using government purchasing cards. We found general improvement from when we last reported on government purchasing card controls in 2014, but still noted shortcomings, of varying significance. We did not find any inappropriate use of cards.

The findings of this report provide an insight to good practice, so all agencies including those not audited, can consider their own performance.

I wish to acknowledge the cooperation of the staff at the agencies included in this audit.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY
AUDITOR GENERAL
11 April 2017

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Controls Over Purchasing Cards

Background

Purchasing cards are a significant procurement tool in Western Australian (WA) government agencies, with 27,735 cards used to purchase \$480 million in goods and services in 2015-16. Purchasing cards enable agencies and suppliers to reduce costs and streamline business processes while the reduced use of paper can also benefit the environment.

However, the potential for improper or unauthorised use of purchasing cards means they need to be well managed – a risk evidenced by periodic and ongoing identification of misuse across the private and public sectors. Agencies therefore need to ensure appropriate controls are in place and be continually vigilant against misuse.

The use of WA government purchasing cards is governed by the *Financial Management Act 2006* and Treasurer's Instructions (TIs) particularly TI 321 *Credit Cards – Authorised Use*. The *Western Australian Government Purchasing Card Guidelines* (July 2016) provide further information to agencies on using and managing purchasing cards.

We have undertaken a number of previous across government audits of government purchasing cards. The most recent audit was in 2014. In that audit we identified a range of issues and concluded that there had been no significant improvement in policies and practices since our previous report in 2009.

What we did

The focus of this audit was to determine if agencies have effective controls over expenditure incurred using corporate purchasing cards. We also reviewed the expenses incurred by the chief executive officers of the agencies to assess whether there was adequate independent review of their purchasing card use.

We assessed the policies and practices at 9 agencies, over a 9 month period, using the following lines of inquiry:

1. Do agencies have appropriate policies and administrative systems in place for government purchasing cards?
2. Are suitable controls in place to monitor and manage the issue and use of cards and the timely approval of card transactions?
3. Do agencies periodically review their use of purchasing cards and act on any identified shortcomings?

Our sample included 1 agency from our 2014 audit.

We conducted this across government benchmarking audit (AGBA) under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. AGBAs assess and benchmark agencies against common business practices to identify good practices, and control weaknesses and exposures so that agencies, including those not audited, can compare their own performance.

Conclusion

There has been a general improvement from when we last reported on government purchasing card controls, but we still noted shortcomings, of varying significance, in the policies and practices at all agencies we audited. We did not find any inappropriate use of cards.

What did we find?

No agency in our sample was rated as 'good' across all 3 of our lines of enquiry with all 9 agencies needing to improve some aspects of their policies and/or practices for managing purchasing cards. Department of Culture and the Arts, which was also included in our 2014 audit, had improved its policies and systems since that audit.

Agency	Policies and administrative systems	Controls over use of purchasing cards	Review of purchasing cards
Department of Culture and the Arts	Good	Fair	Fair
Department of Education Services	Fair	Good	Good
Department of Mines and Petroleum	Good	Fair	Fair
Department of Training and Workforce Development	Good	Fair	Good
Department of Transport	Good	Fair	Good
Metropolitan Cemeteries Board	Poor	Fair	Good
School Curriculum and Standards Authority	Fair	Good	Good
The Library Board of Western Australia	Fair	Fair	Poor
Western Australian Tourism Commission	Fair	Fair	Good

Table 1: Agency ratings against our criteria

Most agencies need to improve their policies and administrative systems

Good policies and procedures provide clarity and guidance so that staff understand their responsibilities, and consistently use and manage purchasing cards in accordance with the agency's expectations. They provide important guidance on issuance, cancellation, and also validation and acquittal of expenditure.

Four of the 9 agencies had comprehensive policies and systems for managing purchasing cards. At the other agencies we found that:

- The Metropolitan Cemeteries Board had outdated policies that did not include clear guidance on cancellation of purchasing cards or the management of cards while the cardholder is on extended leave. The Board's policies also lacked clear guidance on the use of purchasing cards for hospitality purposes and the acquittal of purchasing card transactions.
- The policies of the Library Board of Western Australia, Western Australian Tourism Commission and School Curriculum and Standards Authority did not include clear guidance in the event that a purchasing card is used by a person other than the cardholder.
- The Department of Education Services had an outdated policy that was being reviewed and updated during the course of the audit to address findings of a recent internal audit.

Only Department of Education Services was adequately managing the use of purchasing cards

We audited 900 transactions (including 25 entertainment transactions) totalling \$396,473 or 3.3% of total purchasing card expenditure at the 9 agencies. Figure 1 shows the number of agencies where we found shortcomings.

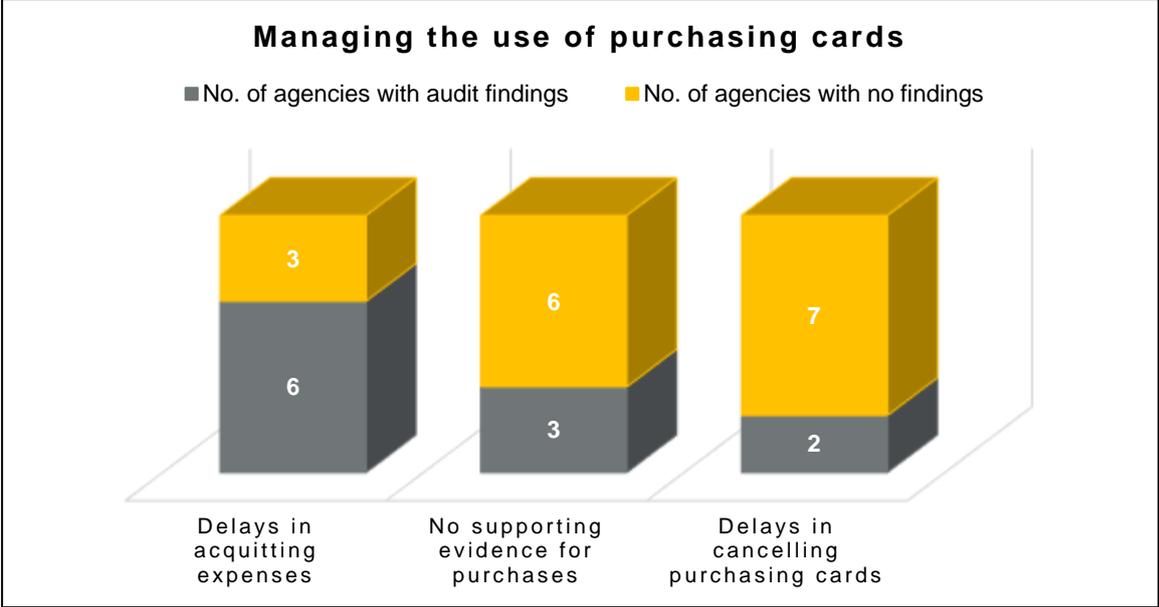


Figure 1: Audit findings by number of agencies

Eight agencies had control weaknesses relating to the use of purchasing cards which exposed them to a range of consequences:

- 186 instances of delays in acquitting monthly purchasing card statements at 6 agencies, with 153 of these outstanding for 3 or more months. Lengthy delays can make it more difficult to identify inappropriate payments.
- Lack of supporting evidence for 4 purchasing card transactions totalling \$439 at 3 agencies. This was an improvement on our 2014 results. A lack of evidence can make it difficult for management to confirm that payments were made for valid business purposes.
- Delays of up to 58 days in cancelling 6 cards at the Department of Culture and the Arts and Department of Training and Workforce Development. Delays increase the risk of an unauthorised person using a card.

Figure 2 shows the frequency of audit findings:



Figure 2: Audit findings as a proportion of transactions tested

Most agencies are monitoring purchasing card use

The Library Board of Western Australia was not performing any formal review of purchasing card use. Periodic reviews provide management with assurance on a number of matters including:

- the appropriateness of credit limits
- the extent of card use by individuals and their continuing need for a card
- any non-compliance with the agency's purchasing card policies and procedures.

Recommendations

1. All agencies should ensure that:
 - a. policies clearly specify requirements for all key purchasing card processes
 - b. they keep records of all purchasing card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval
 - c. management acquit/certify purchasing card transactions and cancel redundant cards in a timely manner to avoid loss and/or misuse of cards
 - d. they regularly monitor outstanding transactions to identify and follow up on long outstanding un-acquitted transactions
 - e. purchasing card use is periodically reviewed to identify dormant and low use cards, and to confirm that card use conforms to agency policy. The results of these reviews should be documented and retained.

Agency responses

Agencies in our sample generally accepted the recommendations and confirmed that where relevant, they have either amended policies and administrative systems or will improve practices for managing purchasing cards.

Auditor General's Reports

Report Number	2017 Reports	Date Tabled
3	Tender Processes and Contract Extensions	11 April 2017
2	Opinion on Ministerial Notification	6 April 2017
1	Opinion on Ministerial Notification	30 March 2017

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