

# Western Australian Auditor General's Report



## Controls Over Purchasing Cards



Report 17: 2019-20  
27 March 2020

## Office of the Auditor General Western Australia

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***The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.***

## WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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### **Controls Over Purchasing Cards**



**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*.

This focus area audit assessed if sampled entities have effective controls over expenditure using corporate purchasing cards.

I wish to acknowledge the entities' staff for their cooperation with this report.

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

CAROLINE SPENCER  
AUDITOR GENERAL  
27 March 2020

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# Executive summary

## Background

Western Australian government purchasing cards are an important part of the public sector purchasing system. Purchasing cards offer significant benefits to State government entities (entities), suppliers and the environment. They can reduce costs and streamline business processes associated with authorising, tracking, purchasing, payment and reconciling entity purchases and can also significantly reduce the use of paper.

However, if not managed correctly, there is potential for improper, wasteful or unauthorised expenditure. Entities need to ensure that appropriate controls are in place and be continually vigilant against misuse, and that the controls are assessed on a regular basis.

The use of WA government purchasing cards is governed by the *Financial Management Act 2006* and Treasurer's Instructions (TI) particularly TI 321 *Credit Cards – Authorised Use*.

We last reported an across government audit of State government purchasing cards in 2017. In that audit we identified a range of findings but concluded that there had been some improvement since our previous report in 2014.

## Conclusion

Entities generally have appropriate policies and administrative systems in place to manage the use of purchasing cards. Although our findings indicate a general improvement in controls compared to our last report on this topic in 2017, we still identified examples of poor practice. Entities still need to improve their policies, the monitoring of purchasing card use, and better manage transaction limits.

## What we did

The focus of our audit was to assess whether sampled entities have effective controls over expenditure using corporate purchasing cards, using the following criteria:

- Do entities have appropriate policies and administrative systems in place for government purchasing cards?
- Are suitable controls in place to monitor and manage the use of cards and the timely approval of transactions?
- Do entities periodically review their use of purchasing cards and act on any identified shortcomings?

As part of this audit, we used data analytics to review large volumes of transactions and data for unusual items, patterns and events that could indicate fraud. We then further investigated the transactions or events.

Detailed findings have been reported to audited entities. Entity audit committees should follow up to ensure the audit findings and recommendations are appropriately addressed by management in a timely manner.

We conducted this audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. The approximate cost of undertaking the audit and reporting is \$220,000.

## Entities included in our audit

Focus area audits assess entities against common business practices to identify good practices, and control weaknesses and exposures so that all entities, including those not audited, can evaluate their own performance.

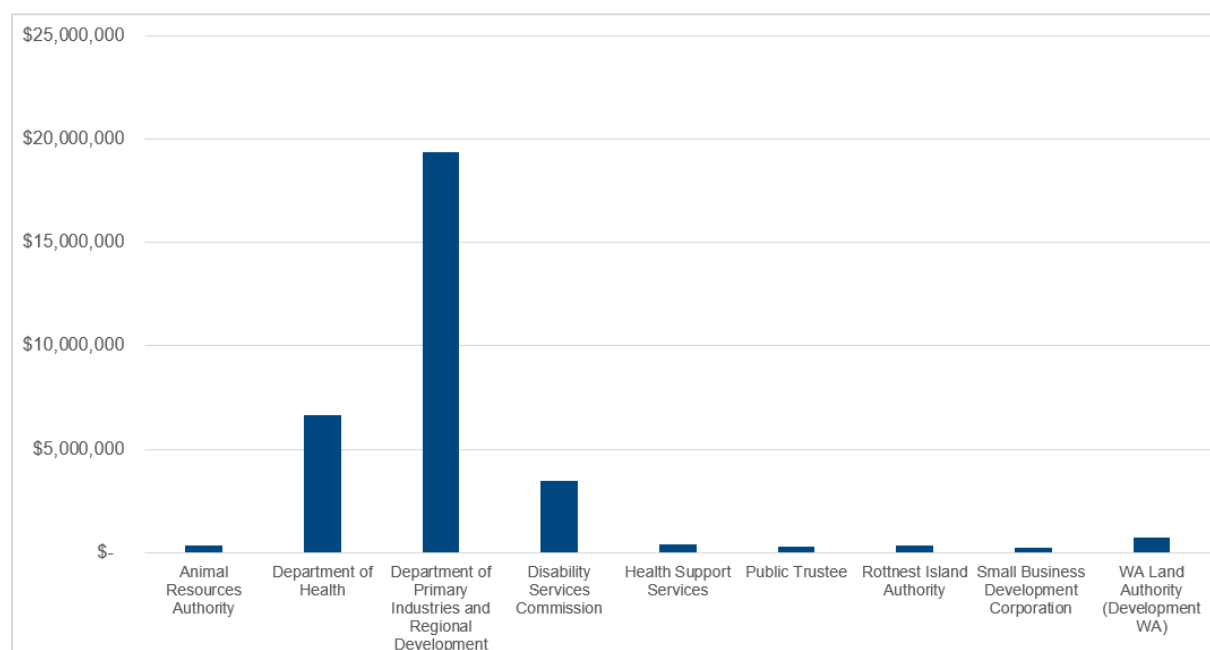
We selected a sample of 9 entities for this focus audit. When selecting the entities to be included, we considered the size of the entities and the different levels of purchasing card use to ensure that we were covering a wide variety in our sample.

Entity	Number of purchasing cards	Total purchasing card expenditure 1 July 2018 - 30 June 2019
Animal Resources Authority	8	\$317,772
Department of Health	111	\$6,662,154
Department of Primary Industries and Regional Development	1,022	\$19,361,424
Disability Services Commission	772	\$3,460,601
Health Support Services	47	\$395,034
Public Trustee	25	\$652,458
Rottnest Island Authority	62	\$362,440
Small Business Development Corporation	14	\$219,896
WA Land Authority (Development WA)	103	\$739,269

Source: OAG

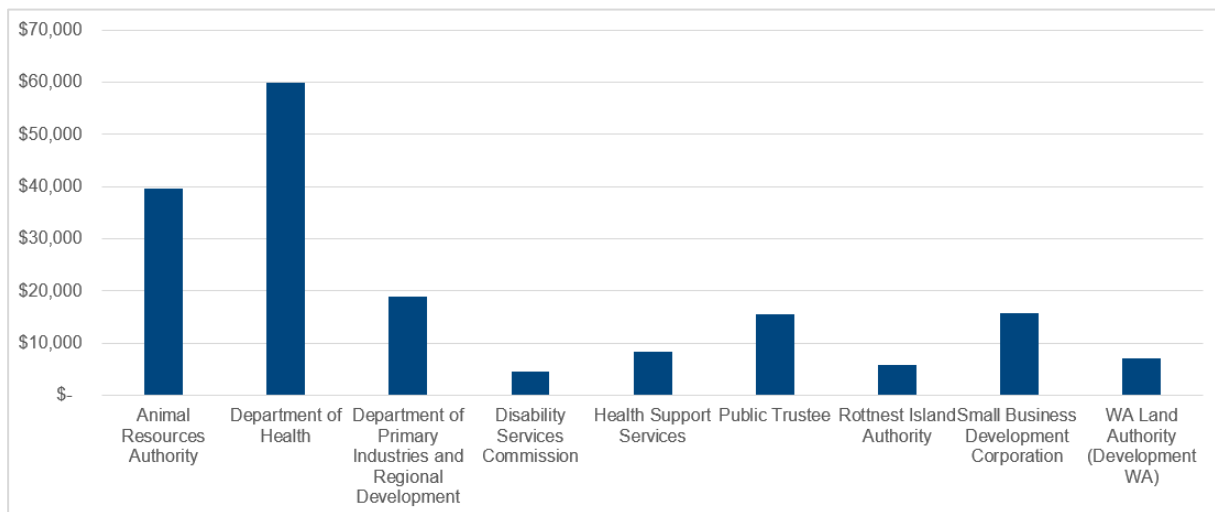
**Table 1: Entities included in our sample**

Figure 1 shows entities' total purchasing card expenditure during 2018-19 and Figure 2 shows the average spend on the purchasing cards we sampled.



Source: OAG

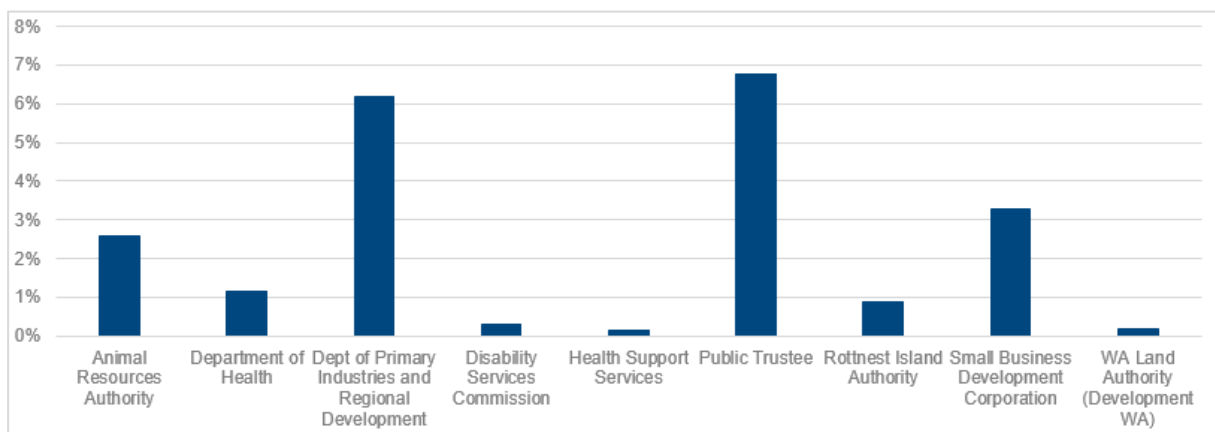
**Figure 1: Total purchasing card spend per entity during 2018-19**



Source: OAG

**Figure 2: Average spending on purchasing cards during 2018-19**

Figure 3 shows the total purchasing card expenditure at the entities for the period 1 July 2018 to 30 June 2019 as a percentage of total expenditure.



Source: OAG

**Figure 3: Purchasing card expenditure as a percentage of total expenditure**



## What we found

### All entities had up to date and approved policies and procedures for the use of purchasing cards, however some aspects were not included

Good policies and procedures provide essential guidance for staff to manage purchasing cards in accordance with management's expectations. They should cover matters such as controls over issuing and cancelling cards as well as approving and acquitting purchases.

In 5 of the entities sampled, there was no policy or clarification regarding the return of cards while on extended leave. The policy should state what length of time represents extended leave and the need for the cardholder to return the card to the finance area while they are on leave.

Four of the entities also did not have a policy regarding the use of Paypal. Paypal can be an effective method of payment for certain purchases. However, its use creates an increased risk as the purchasing card is required to be linked to a Paypal account, which could result in the officer's personal expenses being recorded with the entity's transactions. If an entity uses Paypal, then it should have a more detailed policy on what can be purchased, and the type of evidence required for these purchases.

In 4 of the entities tested, the policy around hospitality and entertainment expenses needed to be clearer. Our data analytics testing noted a number of purchases in relation to food, gifts and alcohol. The policy at these entities is not clear on what is acceptable expenditure for hospitality, and delegated limits for these types of expenditure have not been set.

### Most entities need to apply better controls over the use of cards

We tested a sample of 100 purchasing card transactions per entity and noted that a large number of them were supported by appropriate documentation, acquitted and approved in a timely manner, and were for business purposes. However, we still found a number of poor practices that had not been identified by the entities.

At 2 of the entities sampled, we noted instances where grocery store rewards program cards had been used when purchasing groceries. Public sector guidelines on gifts, benefits and hospitality require that purchasing cards should not be used to gain private advantage through the transaction. When rewards programs are used in conjunction with government purchasing cards, there is an increased risk of individuals making purchases through a particular supplier to gain a private advantage.

As part of our data analytics, we reviewed the purchasing card transactions to identify if expenditure on the card had occurred while the cardholder was on leave. Our testing identified that purchasing cards were being shared between staff at 5 of the entities sampled while the cardholder was on leave. One low value transaction was made when the cardholder was on leave, which was an allegedly fraudulent transaction that had not been reported. The risk of sharing a card is that an entity cannot hold a cardholder accountable for all of the transactions paid for using that card.

Our data analytics further identified instances of splitting payments at 3 entities. This occurs where the cardholder splits the payment of a transaction into 2 or more instances to circumvent the transaction limit set on the purchasing card. The risk of splitting a payment is that the cardholder is making a purchase at a value that they are not delegated to make.

We also found instances of personal use on purchasing cards in 3 of the entities where the cardholder did not notify the appropriate authority in a timely manner. We also noted a number of instances at these 3 entities where the money had not been repaid within 5 days of notification, as required by Treasurer's Instruction 321 *Credits Cards – Authorised Use*. If

personal use of a government purchasing card is not tightly controlled, it is possible that amounts may not be reimbursed.

### **Five entities had purchases that were not acquitted and approved in a timely manner**

Of 600 transactions tested at 6 entities, 155 were not acquitted and approved in a timely manner (within 30 days). When transactions are not acquitted and approved in a timely manner, there is an increased risk that unauthorised transactions are not identified and resolved promptly.

We also noted that transaction limits were not applied to purchasing cards in 7 of the 9 entities sampled. The purchasing card system is set up to implement a transaction limit on cards, but these entities are not implementing or enforcing these limits. Not implementing a transaction limit increases the risk of a large monetary loss, as large inappropriate transactions can be processed in 1 transaction. For example, if a purchasing card has a \$100,000 limit with no transaction limit, the card holder could use the entire purchasing card limit in the 1 transaction.

### **None of the entities sampled had a formal review process to identify any shortcomings**

Most of the entities sampled stated that they performed a periodic review of their purchasing cards, but none had formal records to evidence this.

From our review of the activity on purchasing cards across the 9 entities, we noted 475 cardholders who had used their purchasing card less than 12 times in the last 12 months, suggesting that they may not have a need for a purchasing card.

We also noted instances where business items were bought on the purchasing card that were outside the entity's purchasing card policy, for example, the purchase of IT equipment and fuel.

Regular formal reviews would identify similar issues in a timely manner, and enable an entity to take appropriate corrective action, including training for card users.

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## Recommendations

All entities should:

1. have appropriate policies and administrative systems in place for the use of government purchasing cards
2. ensure that they have suitable controls in place to monitor and manage the issue and use of cards and the timely approval of card transactions
3. periodically review the use of purchasing cards within the entity to identify and act on any shortcomings, such as whether there are too many cards within the entity, or that they are not being utilised to their full advantage.

## **Response from State government entities**

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

## Appendix 1: Better practice principles

The following table shows control principles on which our audit focused. They are not intended to be an exhaustive list.

Controls over purchasing cards	Focus area	What we expected to see
<b>Policy</b>	Policies and procedures	<ul style="list-style-type: none"> <li>Entities should have a purchasing card policy that is up to date and accessible to all staff. The policy should include items such as: <ul style="list-style-type: none"> <li>processes and controls for the issue, management and cancellation of a credit card, including credit card limits, validation and acquittal of expenditure</li> <li>purposes for which a card may, or may not, be used</li> <li>cardholder's obligations (including during leave periods)</li> <li>processes for discharging any debt for personal expenditure on a credit card</li> <li>process for online purchases, including Paypal.</li> </ul> </li> </ul>
	Delegations	<ul style="list-style-type: none"> <li>There are appropriate delegations in place for monetary limits on cards, monitoring the use of purchasing cards and approval of expenditure.</li> <li>Where appropriate, delegations should also be set for certain types of expenditure.</li> </ul>
<b>Use of purchasing cards</b>	Managing and monitoring the use of cards	<ul style="list-style-type: none"> <li>All purchasing card transactions should be valid, properly incurred, certified and accounted for in accordance with the entity's purchasing card policies.</li> <li>New cards should be properly authorised before use.</li> <li>Cancelled cards should be cancelled on a timely basis to ensure unauthorised transactions do not occur.</li> <li>When employees go on leave, purchasing cards should be returned to the Card Administrator or another approved officer, and not shared with other employees.</li> <li>All transactions should be within the delegated transaction limits and transactions should not be split to circumvent these limits.</li> </ul>
<b>Monitoring of purchasing cards</b>	Appointment of a reviewer	<ul style="list-style-type: none"> <li>The entity should have an appointed reviewer as required by TI 321.</li> <li>A review of purchasing cards should be carried out on a regular basis and evidence of the review should be retained.</li> <li>Management should periodically review credit card activity to identify inactive or under-used cards that may warrant cancellation.</li> </ul>

Source: OAG



## Auditor General's reports

Report number	2019-20 reports	Date tabled
16	Audit Results Report – Annual 2018-19 Financial Audit of Local Government Entities	11 March 2020
15	Opinion on Ministerial Notification	28 February 2020
14	Opinion on Ministerial Notification	31 January 2020
13	Fee-setting by the Department of Primary Industries and Regional Development and Western Australia Police Force	4 December 2019
12	Audit Results Report – Annual 2018-19 Financial Audits of State Government Entities	14 November 2019
11	Opinion on Ministerial Notification	30 October 2019
10	Working with Children Checks – Follow-up	23 October 2019
9	An Analysis of the Department of Health's Data Relating to State-Managed Adult Mental Health Services from 2013 to 2017	9 October 2019
8	Opinions on Ministerial Notifications	8 October 2019
7	Opinion on Ministerial Notification	26 September 2019
6	Opinions on Ministerial Notifications	18 September 2019
5	Fraud Prevention in Local Government	15 August 2019
4	Access to State-Managed Adult Mental Health Services	14 August 2019
3	Delivering Western Australia's Ambulance Services – Follow-up Audit	31 July 2019
2	Opinion on Ministerial Notification	26 July 2019
1	Opinions on Ministerial Notifications	19 July 2019

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