

# Western Australian Auditor General's Report



## Controls Over Corporate Credit Cards



Report 7: May 2018

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## WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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### **Controls Over Corporate Credit Cards**



**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

### **CONTROLS OVER CORPORATE CREDIT CARDS**

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

The report summarises the results of my first focus area audit in the local government sector.

The audit assessed whether 8 local governments have effective controls over the use of corporate credit cards. We found that they generally had satisfactory controls, but we did note various shortcomings and have made related recommendations for improvement.

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

COLIN MURPHY  
AUDITOR GENERAL  
9 May 2018

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## Auditor General's overview

I am pleased to present my first local government audit report to Parliament, under the *Local Government Amendment (Auditing) Act 2017*.

This report reflects the results of a focus area audit on Controls Over Corporate Credit Cards. These audits have a narrow scope and normally focus on specific areas of financial controls. We audited 8 local governments, some big in size and some small, some metropolitan based and some regional, to give an idea of how local governments are performing in this area.

Given the huge diversity among local governments, the intent of these audits is not to compare, but to provide examples of better practice as well as opportunities for improvement.

Corporate credit cards offer significant benefits to entities. They can reduce costs and streamline business processes associated with authorising, tracking, purchasing, payment and reconciling purchases. But like all financial processes and tools, they can be misused if not properly managed.

I recognise the challenges that small local governments in particular experience with regard to matters such as segregation of duties and suitable arrangements while key staff are on leave. In saying that, the results of this audit are generally good. While we noted some areas that could be done better, the local governments mostly had satisfactory controls in place.

Importantly, the local governments were accepting of our findings and were open to change to address the issues we identified. And I encourage all local governments to follow suit – to assess their own management of corporate credit cards against the findings and recommendations of this report and to promptly act where required.

Parliament gave the Auditor General the mandate to audit local government to enhance accountability and transparency across the sector. For this to be a success we need to continue on the path we started with this audit. That is working together to recognise good practice as well as identify areas where things can and should be done better – in the public interest.



# Controls over corporate credit cards

## Background

Corporate credit cards are an important part of modern purchasing systems, offering significant benefits such as reduced costs and streamlined business processes. They are used for local government purchases including computing and other equipment, general consumables, hospitality and travel. While local governments generally use credit cards for a small proportion of their payments, it is important they are effectively managed to reduce the risk of improper or unauthorised use.

Local government employees and chief executive officers (CEOs) use corporate credit cards. However, the elected members that make up a local government Council cannot use these cards as the *Local Government Act 1995* (LG Act) does not allow them to incur debts. Instead, local governments pay allowances or reimburse expenses to an elected member.

The LG Act and associated regulations require:

- the Council to oversee allocation of the local government's finances and resources and to determine policies
- the CEO to ensure that proper accounts and records are kept in accordance with regulations
- local governments to develop procedures for the payment of accounts to ensure that there is effective security for, and properly authorised use of credit cards.

In conducting our audit, we considered the above requirements, *Local Government Operational Guidelines Number 11 – September 2006 Use of Corporate Credit Cards* and other accepted better practice guidance.

## Conclusion

Local governments in our sample generally had satisfactory controls in place to manage the use of credit cards. We noted shortcomings however, of varying significance, in the policies and practices at most local governments we audited. We did not find any inappropriate use of credit cards.

## Recommendations

1. Local governments should:
  - a. ensure policies specify requirements for all key credit card processes
  - b. keep adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval
  - c. cancel redundant cards in a timely manner to avoid loss and/or misuse of cards
  - d. regularly monitor outstanding transactions to identify and follow up on long outstanding un-acquitted transactions
  - e. ensure senior management periodically reviews credit card use, to confirm compliance with policies and to identify any abnormal trends. The results of these reviews should be documented and retained.

## What we did

The focus of this audit was to determine if the local governments in our sample have effective controls over the use of corporate credit cards. We also assessed if there was adequate independent review of the credit card use of CEOs.

We assessed the policies and practices at 8 local governments, over the period 1 January 2017 to 30 September 2017, using the following lines of inquiry:

1. Do local governments have appropriate policies and administrative systems in place for corporate credit 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 management periodically review their use of corporate credit cards and act on any identified shortcomings?

We conducted this audit under sections 18 of the *Auditor General Act 2006* and 7.12AJ of the *Local Government Act 1995* and in accordance with Australian Auditing and Assurance Standards.

## Local governments included in our audit

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

When deciding which local governments to include in this audit we aimed for a mix of different size local governments from diverse locations with varying budgets, resourcing and purchasing requirements. This allowed us to identify potential issues, better practice examples and improvement opportunities that are likely to be applicable across the broader local government sector.

We included the following local governments in this audit:

Local government	Number of credit cards	Number of credit card purchases made	Number of credit card purchases as a % of all purchases made	Value of credit card purchases	Value of credit card purchases as a % of all purchases made
City of Kalamunda	12	959	14%	\$159,585	0.34%
City of Rockingham	90	4,391	20%	\$1,213,175	0.89%
City of Wanneroo	54	3,199	4%	\$417,185	0.28%
Shire of Carnarvon	4	108	4%	\$17,144	0.17%
Shire of Cranbrook	2	293	16%	\$45,688	1.06%
Shire of Dandaragan	4	143	4%	\$41,249	0.43%
Shire of Denmark	4	122	6%	\$22,799	0.34%
Town of Port Hedland	8	553	12%	\$176,929	0.47%

**Table 1: Key expenditure statistics from 1 January 2017 to 30 September 2017**



## What did we find?

### Overall policies and administrative systems for managing corporate credit cards were appropriate

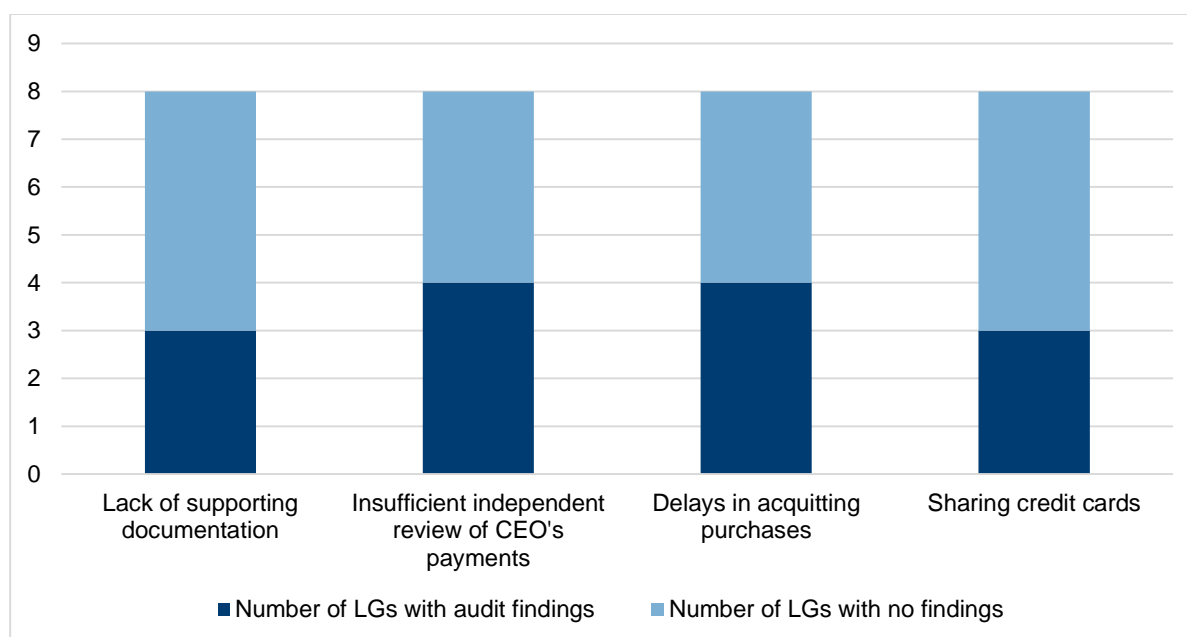
Good policies and procedures provide essential guidance for staff to manage credit cards in accordance with management's expectations. They should cover matters such as controls over issuing and cancelling cards as well as approving and acquitting purchases.

We found that appropriate policies and administrative systems were generally in place for use of credit cards, however:

- at the Shire of Denmark and the City of Wanneroo we found that policies did not specify the timelines for acquitting and approving monthly credit card statements. Setting timelines is important as they help ensure timely acquittal and approvals, and also early identification of any unauthorised transactions
- at the City of Wanneroo, we found 2 instances where cardholders had not completed cardholder agreements. Cardholder agreements outline cardholder duties and responsibilities.

### Suitable controls were generally in place for managing credit card use, however most local governments had opportunities for improvement

Strong controls assist in the early identification of erroneous, inappropriate or unauthorised transactions. It is good practice for transactions to be matched to invoices and vetted by the cardholder before being independently approved by the cardholder's supervisor. These steps should be completed within a reasonable timeframe on a monthly basis.



**Figure 1: Audit findings by number of local governments (LGs)**

We identified control weaknesses of varying significance at all local governments, except the Shire of Carnarvon:

- The City of Rockingham did not always have appropriate independent approval of credit card transactions. For 54% of cardholders, the coding and review of their transactions was performed by subordinates, and the cardholders thereafter approved their own transactions.

- CEO credit card transactions were approved by a subordinate, or were self-approved at 4 local governments. This process could be improved to increase transparency, without introducing additional approval processes, by periodically reporting the CEO's transactions to the Council, and clearly identifying them for noting.
- To ensure the person using the credit card is identifiable and accountable, staff should not share credit cards. We found sharing of cards at 3 local governments:
  - At the City of Kalamunda, we found that cardholders permitted staff within their departments to use their card. The monthly statement was then signed off by the cardholder and a subordinate. We were unable to determine who made the purchases and could not substantiate if approvals were independent. Staff at the City of Wanneroo and Shire of Dandaragan also shared cards but they were able to demonstrate independent approval and monitoring of these purchases.

We recognise the challenges of small local governments in this regard, however they should consider other arrangements to avoid sharing of cards.

- We found delays in cancelling cards when staff resigned, at the Shire of Denmark and the City of Wanneroo. The maximum delays were 4 months and 11 months respectively. If cards are not cancelled promptly, they may be used by other non-authorised staff.
- The City of Rockingham did not have adequate documentation for 20% of the transactions we audited. The Shire of Cranbrook and Shire of Denmark lacked adequate documents for a small number of transactions. This makes it difficult for management or auditors to determine the appropriateness of purchases.
- We found 4 local governments were not always acquitting their credit card transactions in a timely manner or in line with their own policy. The delays ranged from 7 business days later than required by the policy, to over 4 months. Timely acquittals help identify any erroneous or inappropriate payments.

### **While local governments were reviewing credit card usage, there was inconsistent reporting to Council**

We found that all the local governments were reviewing the use of credit cards in some way, on a regular basis. We were pleased to note that the City of Rockingham and the Shire of Carnarvon recently audited their credit cards. Internal audits provide management with important insight into credit card usage and associated effectiveness of controls.

Reporting to Council on credit card expenditure was inconsistent as:

- half the local governments reported payment of the outstanding credit card balance
- the others reported individual purchases made on the credit card.

The latter approach clearly provides more transparent oversight of this expenditure as regular detailed review of all payments can help identify unusual card use. Councils interpreted Regulation 13 of the Local Government (Financial Management) Regulations 1996 inconsistently. This regulation requires local governments to present the details of all payments, including corporate credit card payments to Council on a monthly basis.

## Response from local governments

Local governments 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 credit cards.

The City of Wanneroo agreed that in future credit cards will be cancelled when staff leave. The City advised that in the instances identified during our audit, although the cards had not been promptly cancelled with the bank, they had been promptly destroyed when the staff members resigned and that no transactions had been made using those cards.

## Auditor General's Reports

Report number	2018 reports	Date tabled
6	Audit Results Report – Annual 2017 Financial Audits and Management of Contract Extensions and Variations	8 May 2018
5	Confiscation of the Proceeds of Crime	3 May 2018
4	Opinions on Ministerial Notifications	11 April 2018
3	Opinion on Ministerial Notification	21 March 2018
2	Agency Gift Registers	15 March 2018
1	Opinions on Ministerial Notifications	22 February 2018

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