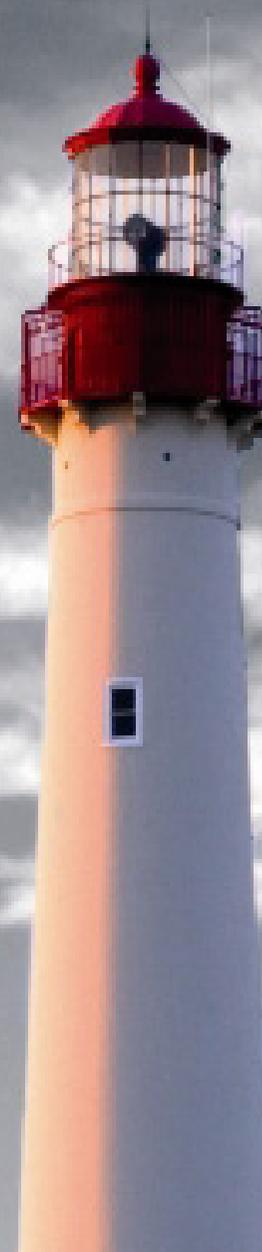


# RSM Bird Cameron

**Internal Audit Report**  
**MasterCard Credit Cards**  
**Warringah Council**  
**March 2012**



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## 1. Executive Summary to Council

### 1.1. Background

Warringah Council ("Council") has issued MasterCard credit cards to senior management and certain staff to facilitate the purchase of items not normally covered by the Council procurement process.

The Warringah Council Internal Auditor conducted a MasterCard Review in March 2010 (report issued in May 2010). A number of key findings were raised regarding policy and procedure, card utilisation and cardholder accountability. Management provided action plans to address the detailed findings and the Internal Auditor has been continuously monitoring the implementation of these action plans.

Council recently requested a follow-up audit from an external provider to ensure that Council has effective control processes in place over the administration and use of its corporate credit cards. The Council required an in-depth audit of credit card usage covering an 18-month period from 01 February 2010 to 31 July 2011, and specified a full audit of credit card usage by senior management (including the Mayor, General Manager and Deputy General Managers), and a sample of other credit card holders.

The Warringah Council had 74 cardholders with a total monthly facility of \$89,150 as at July 2011. Cardholder numbers have varied over the review period from 88 in March 2010 to the 74 at the end of the review period. The allocated cardholder limits have decreased from \$145,650 in March 2010 to \$89,150 in July 2011. The monthly expenditure has stayed consistently around \$20,000.

### 1.2. Objective and Scope of Review

The Council requested a review of the internal controls and processes, including policies and delegated authorities that govern and control credit card expenses.

The work covered:

*A review of all credit card transactions for the agreed-upon sample against the Council's policies and procedures to ensure effective control processes are in place over the administration and use of corporate credit cards. Our review included:*

- *Application approvals:* Applications are subject to approval by the Mayor, General Manager or Deputy General Manager
- *Statement and Transaction approvals:* Statements are to be reconciled by cardholders against tax receipts. Expense claims are reviewed and approved in accordance with the Delegations of Authority
- *Nature of Expenditure and Account Coding:* Credit card usage is limited to business expenditure and is acquitted on a timely basis
- *Supporting Documentation and Information:* Tax receipts are required as supporting evidence for all expenses
- *Management Approval of Transactions:* All transactions are reviewed and approved by Line Management
- *Compliance with procurement processes:* All transactions were reviewed for compliance with procurement processes and supplier contracts
- *Other:* Any other issues arising from the review

## 1.3. Applicable Standards

Our review has been conducted in conformance with:

- The Standards and Codes of Ethics issued by the Institute of Internal Auditors
- Where relevant, the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association.
- Relevant auditing standards issued by the Auditing and Assurance Standards Board

This review has been performed in accordance with the principles set out in the Standards issued by the Institute of Internal Auditors. These Standards address:

- The Attributes of organisations and individuals performing internal auditing; and
- The nature of internal audit and quality criteria against which the Performance of these services can be measured.

## 1.4. Inherent Limitations

Due to the inherent limitation of any internal control structure, it is possible that fraud, error or non-compliance with policies and procedures, laws and regulations may occur but not be detected. The scope of this engagement is not designed to detect all weaknesses in control procedures and the tests performed on the control procedures are on a sample basis.

In performing our engagement, we are also reliant upon Council, its employees, representatives, and other involved personnel providing all relevant information to us on a timely basis.

Any assessment of control procedures for future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or the degree of compliance with them may deteriorate.

## 1.5. Summary

The principal findings identified in Section 2 of the detailed report provided to Management, together with the status of actions taken on previous matters raised are as follows:

### 1. Credit Card Applications:

Considerable improvement was evidenced in the signature for credit card approvals. Approvers should review usage and amend credit limits on an ongoing basis.

### 2. Statement and Transaction Approvals:

An improvement was observed in the approval process, with zero instances identified where self-approval of expenses had occurred. A small number of exceptions were identified which require:

- Statements to be approved
- Claims to be submitted on a timely basis (coding to a holding account is evidence of delayed submission).
- Most of the exceptions pre-dated the provision of training in March 2011.

### 3. Nature of Expenditure and Account Coding:

The issues identified in the previous audit relating to performance recognition awards and coding to correct accounts continues to be an issue. In addition, registration for seminars and conferences do not always comply with policy as prior HR approval has not necessarily been obtained. Most of the exceptions pre-dated the provision of training in March 2011.

### 4. Supporting documentation and information:

We noted an improvement in the quality of supporting documentation and identified a lower frequency of use of statutory declarations to support expenditure. Exceptions continued to occur, albeit we would not expect compliance in all cases. Most of the exceptions pre-dated the provision of training in March 2011.

### 5. Management approval of transactions:

Of the transactions tested, approximately 3% were identified as having incomplete supporting documentation. Most of the exceptions pre-dated the provision of training in March 2011.

### 6. Credit cards used rather than following procurement processes:

We have identified transactions where credit cards have been used rather than conducting the purchase through normal procurement processes

Overall, we have noted a significant improvement in application of policies and in the documentation of credit card claims after training was provided in March 2011. Whilst we would not expect absolute compliance with documentation standards, the small number of instances identified where errors or omissions occurred after the provision of training demonstrates the improved awareness and diligence being applied in the documentation and review process.

## 1.6. Acknowledgements

We would like to thank all personnel who have assisted in this review. The personnel we have dealt with have provided candid feedback with a view to identifying improvements in the processes. We are grateful for their assistance and input.



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Head of Risk Advisory Services (Sydney)

14 March 2012

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