

The Auditor-General  
Audit Report No.35 2012–13  
Performance Audit

## **Control of Credit Card Use**

**Australian Trade Commission  
Department of the Prime Minister and Cabinet  
Geoscience Australia**

Australian National Audit Office

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Canberra ACT  
16 May 2013

Dear Mr President  
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Trade Commission, the Department of the Prime Minister and Cabinet, and Geoscience Australia with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Control of Credit Card Use*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations

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ANAO	Australian National Audit Office
Austrade	Australian Trade Commission
CEIs	Chief Executive's Instructions
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
Geoscience	Geoscience Australia
PM&C	Department of the Prime Minister and Cabinet
WoAG	Whole-of-Australian-Government

# Glossary

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Agreement and acknowledgement form	An agreement and acknowledgement form lists the key responsibilities of a cardholder, and usually also refers to other guidance to be followed. Agreement and acknowledgement forms are typically signed by a cardholder when they receive a credit card.
Cardholder reconciliation	A process undertaken by a credit cardholder to compare expenditure from his or her credit card statement and supporting documentation (such as tax invoices or receipts) to ensure the statement is accurate. This process is often conducted monthly and involves the cardholder certifying that the expenditure is correct.
Certificate of Compliance	The Certificate of Compliance process requires the Chief Executive of an FMA Act agency to certify—having regard to advice provided by the agency’s internal control mechanisms, management and the audit committee—the agency’s compliance during the previous financial year with requirements of the financial management framework. The Certificate also requires the Chief Executive to state whether the agency has adopted appropriate management strategies for all known risks that may affect the financial sustainability of the agency, and whether it is operating within the agreed resources for the current financial year as at the date of signing. The Certificate must be provided to the responsible portfolio minister by 15 October each year.
Commonwealth credit card	Section 60 (3) of the FMA Act defines a Commonwealth credit card to be a credit card issued to the Commonwealth to enable it to obtain cash, goods or services on credit.



Credit card provider	A credit card provider is generally a bank or other financial institution which provides credit card services to an agency or agencies.
Independent reviewer	A person other than the cardholder (often a supervisor) who is responsible for reviewing a cardholder's reconciliation statement.



# Summary

# Summary

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## Introduction

1. Commonwealth credit cards (credit cards) are widely used by Australian Government agencies as a convenient and flexible approach to purchase goods and services to meet business needs. Credit card expenditure can be considerable, with some large agencies spending tens of millions of dollars. These purchases are generally low-value and routine. Depending on an agency's particular responsibilities, common items of expenditure include airfares, accommodation, taxis and office supplies. In recent years, agencies have usually established their own credit card arrangements with a credit card provider. However, in 2012–13 agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) are transitioning to a common credit card provider as the form of payment for certain airline, accommodation and car rental bookings as part of the Whole-of-Australian-Government (WoAG) Travel Services Arrangements (TSA).<sup>1</sup> As a result of these arrangements, the use of credit cards by agencies will continue to be extensive<sup>2</sup>; and in some agencies, the number of staff using credit cards may increase.<sup>3</sup>

2. Whether card services are provided to agencies through individual contracts or a common contract, the widespread use of credit cards can expose agencies to the risk of inappropriate or unauthorised expenditure. Agencies therefore should establish controls to ensure credit cards are used appropriately for official purposes. Such controls include limiting card access to staff with an identified business need, informing cardholders of their obligations when using credit cards, having in place a suitable card management system and having risk-based processes to check the validity of

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<sup>1</sup> Under the WoAG TSA established by the Department of Finance and Deregulation (Finance) a common credit card provider is used by agencies as the form of payment for domestic air travel (and international air travel originating in Australia), domestic accommodation and domestic car rental bookings. The only exception occurs when an agency pays its staff a travel allowance for accommodation. Refer to <http://www.finance.gov.au/procurement/travel-and-related-services/faqs.html> for details. Accessed 6 March 2013.

<sup>2</sup> Under the WoAG TSA, agencies may choose to use virtual accounts that operate in much the same way as a card-in-hand, but have no physical plastic card attached to it. In this situation, payments for flights, accommodation and car rentals would be made using the virtual card account number, without the need for travellers to be provided with a physical card-in-hand, or even the need to know the number of their 'virtual' card. The WoAG TSA provides agencies with an option to use a card-in-hand product to meet expenses such as for meals and incidentals, as well as general purchasing expenses. Agencies may also choose to enter their own credit card arrangements for non-travel expenditure.

<sup>3</sup> In some agencies, credit cards were previously not used to pay for travel expenditure.

credit card expenditures. Once established, agencies need to ensure these controls remain effective.

3. Requirements relating to the use of credit cards are provided in the FMA Act and the *Financial Management and Accountability Regulations 1997* (FMA Regulations).<sup>4</sup> These requirements relate to the need to make efficient, effective, economical and ethical use of Commonwealth resources, ensuring all expenditure is appropriately authorised and the imposition of penalties for misuse of credit cards. Chief Executive's Instructions (CEIs) generally provide each agency's policy on the use and administration of credit cards. These are usually supplemented by operational guidance and procedures. The Department of Finance and Deregulation (Finance) has issued guidance on the development of CEIs, including in relation to credit cards.<sup>5</sup>

## Audit objective, criteria and scope

4. The audit objective was to assess whether Australian Government agencies were effectively controlling the use of credit cards for official purposes.

5. The ANAO's assessment was based on the following criteria:

- agencies have sound arrangements to control the issue and return of credit cards; and
- controls over individual purchases are sound and operating effectively.

6. The scope of the audit included the credit card controls in three agencies: the Australian Trade Commission (Austrade); the Department of the Prime Minister and Cabinet (PM&C); and Geoscience Australia (Geoscience) during 2011–12.

## Overall conclusion

7. Credit cards are commonly used by Australian Government agencies and appropriate use of credit cards provides benefits in terms of convenience and flexibility for cardholders. During 2011–12 the three agencies subject to audit had over 1500 credit cards on issue and spent in excess of \$15 million on

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<sup>4</sup> Key legislation relating to credit cards includes FMA Act sections 38, 44 and 60, and FMA Regulations 7–12 and 21.

<sup>5</sup> The Department of Finance and Deregulation, *The Model CEIs*, version 2, issued 26 November 2012, p. 41, available at <http://www.finance.gov.au/publications/finance-circulars/2011/docs/model-ceis.pdf>; accessed 6 March 2013.

generally low-value items ranging from airfares and accommodation to office supplies. The proportion of staff with credit cards was some 80 per cent in Austrade, 37 per cent in PM&C and 10 per cent in Geoscience, reflecting the agencies' different credit card policies.<sup>6</sup> The amount and nature of credit card expenditure varied between the agencies, as would be expected given their different responsibilities.<sup>7</sup>

8. The three audited agencies had generally satisfactory arrangements in place to control the use of credit cards for official purposes. Card issue and return was reasonably managed, with agencies issuing credit cards to staff with an identified business requirement and imposing financial limits on cards, and cardholders properly agreeing to and acknowledging their responsibilities before being issued with a card. Cards were no longer used by staff after having left the agencies, although there were some procedural deficiencies in the cancellation of cards and in maintaining a reliable register of cards. Controls on individual purchases were generally sound and operating reasonably effectively, with prompt acquittal and review in two of the three agencies. The incidence of misuse in the sample of credit card transactions examined by the ANAO was very low, and the audited agencies' controls were effective in identifying such misuse, with evidence of follow-up action where necessary.

9. Credit cards can be an efficient way to purchase goods and services and can assist agencies to streamline routine purchasing. Inherent in agencies' decisions to issue staff with credit cards is an understanding that these staff will have to make judgements about the quality and cost of the goods and services they purchase. It is important that all cardholders in agencies remain cognisant of the need to obtain value for money when making purchasing decisions. Over time, different parts of an agency may develop different standards on matters of judgement and the standards of the agency may diverge from justifiable levels. For these reasons, agencies need to remain vigilant to ensure that judgements on quality and cost made by cardholders remain appropriate and consistent, in order to reduce potential financial and reputational losses.

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<sup>6</sup> At the time of the audit, Geoscience did not use credit cards for the payment of travel or taxi fares.

<sup>7</sup> For example, a high proportion of Austrade expenditure was on travel, consistent with its overseas engagements. A high proportion of PM&C expenditure was on accommodation reflecting its responsibilities for hosting significant events and visiting delegations.

## Key findings by chapter

### Issue and return of credit cards (Chapter 2)

10. A basic element in controlling credit card use is to effectively manage to whom, and the conditions under which, credit cards are made available to meet business needs. The three agencies had generally sound policies and procedures for the issue of credit cards, covering such matters as eligibility, credit limits, approval arrangements and the responsibilities of cardholders. Areas for improvement to policy and guidance material by the agencies included documenting:

- any special arrangements for the provision of credit cards to non-employees<sup>8</sup>;
- arrangements for the renewal of credit cards—as distinct from the initial issue of credit cards; and
- responsibility for maintaining a register of credit cards.<sup>9</sup>

11. The ANAO examined a sample of 62 credit cards issued by the three agencies. The credit cards were generally issued in accordance with agency requirements. For all cards in the sample issued during 2011–12, the required agreement and acknowledgement by cardholders was obtained and was available.

12. To help ensure credit cards only remain available to staff with an identified business need, it is important to have credit cards returned when no longer needed, particularly when cardholders leave the agency. The three agencies all had appropriate policies and guidelines in this regard. Areas for improvement related to:

- improving clarity in responsibilities for the final acquittal of the credit card transactions (particularly after the cardholder has left); and
- specifying recordkeeping requirements, namely recording details of credit card cancellations in the register of credit cards.

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<sup>8</sup> For example, Austrade issued credit cards to representatives of other Commonwealth or state government agencies hosted by Austrade at overseas posts, and to a small number of long-term contractors who travel as part of Austrade business. In addition, PM&C issued a small number of credit cards to secondees and to employees in the Prime Minister's official residences.

<sup>9</sup> In two agencies the list of credit cards on issue was incomplete.

13. The ANAO examined the credit card use of all 281 cardholders who left the three agencies in 2011–12. For these departing staff, there were no records of the cancellation of 15 credit cards (five per cent), and 25 credit cards (nine per cent) were cancelled more than 30 days after the staff member departed. There were no credit card transactions made by these staff after they left the agency.

### **Use of credit cards (Chapter 3)**

14. The audited agencies had generally sound policies and procedures for acquittal and review of individual purchases made using credit cards. These covered the responsibilities of cardholders and reviewers in endorsing valid transactions, and dealing with unrecognised or disputed transactions.

15. The ANAO analysed<sup>10</sup> all credit card transactions in the three agencies in 2011–12. To help assess whether credit card acquittal procedures were complied with, the ANAO examined a random sample of 927 transactions and found in two agencies there was a generally satisfactory application of agency controls relating to the timeliness of acquittal. However, in PM&C nearly 30 per cent of transactions examined were not acquitted within the agency's required timeframe. About two-thirds of these transactions had evidence of acquittal—typically some 30–60 days after the due date. For the remaining one-third, documentation was not available to establish the fact or date of acquittal. In February 2013, PM&C reinforced its acquittal requirements through reminders by the Chief Finance Officer to staff with outstanding acquittals; and this focus will need to be maintained to strengthen the application of these requirements in relation to credit card use.

16. Appropriate documentation was available for all of Geoscience's transactions in the random sample. For Austrade<sup>11</sup> and PM&C, documentation was not available for around five per cent of the number of the transactions. These were mainly low value transactions. For the sample of transactions, ANAO analysis of the merchants used and available receipts showed that the goods and services purchased were reasonable in light of the agencies' business needs and credit card policies.

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<sup>10</sup> This included reviewing credit card data to determine total expenditure per agency and per cardholder, analysing merchants used, and types of expenditure.

<sup>11</sup> Austrade policy does not require travellers to obtain and retain a receipt for official travel-related expenditure for minor amounts (up to \$20 per day).



17. In addition to examining a random sample of transactions, the ANAO examined 1503 transactions across the three agencies in several specific categories where the risks of misuse and/or less effective checking were potentially higher. These included transactions with unusually high expenditure for an item, unusual types of merchants, potentially duplicated charges, transactions by high spending cardholders, and transactions undertaken by members of the agencies' executive management groups. Almost all of these transactions were satisfactorily explained. The agencies had already properly identified a number of examples of misuse—such as fraudulent use of the credit card number by a third party, double processing of charges by merchants, and in one case potential abuse by a staff member. This identification of misuse by agencies is indicative of the effectiveness of their controls. However, in a small number of cases, mainly in PM&C, sufficient documentation was not available to confirm the legitimacy of some mainly low-value transactions.

18. One of the agencies (Austrade) had determined there was a business need for cardholders to be able to withdraw cash, for example to pay for routine travel expenses, or to make payments in countries where some service providers may not accept payment by credit card. Cash withdrawals accounted for about ten per cent of the value of credit card transactions in Austrade. Cash withdrawn in 2011–12 was approximately \$900 000, with a small number of individuals withdrawing more than \$20 000 during the year. The ANAO examined a sample of cash transactions and supporting documentation for Austrade cardholders who had withdrawn large amounts of cash during 2011–12.<sup>12</sup> For these transactions, the withdrawal of cash reflected circumstances in specific countries, and supporting documentation and processes provided reasonable oversight of the transactions. Nonetheless, given the risks and sensitivities associated with the use of cash, it is important that Austrade maintain a focus on the application of its policies and guidelines for the withdrawal and use of cash to be confident that such transactions are reasonable in the circumstances.

19. All of the audited agencies had policies providing for, and had undertaken in recent years, some form of periodic review. However, there is scope for agencies to examine the balance of review processes undertaken,

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<sup>12</sup> The ANAO examined in detail the transactions of a sample of six cardholders who withdrew between approximately \$8500 and \$60 000 during 2011–12.

particularly given their varying resource needs. There would be value in agencies adopting an appropriate range of more frequent, lower cost, targeted reviews, supported by more extensive reviews such as an internal audit. Such targeted reviews could examine unusual transactions (by nature or value), potential duplicates, or expenditure where determining appropriateness may be more subject to judgement.

## Summary of agencies' responses

20. The audited agencies' summary responses to the audit report are provided below. Appendix 1 contains the agencies' full responses to the audit report.

### **Australian Trade Commission**

21. Austrade acknowledges the observations of the ANAO and will continue to identify and implement areas for improvement in the context of an upcoming change to its expense management system.

### **Department of the Prime Minister and Cabinet**

22. The Department of the Prime Minister and Cabinet welcomes this review of the controls over credit card use. The Department went through significant changes in 2011–12. These changes included Machinery of Government changes, an internal restructure and the insourcing of accounts processing function which includes credit card administration.

23. The ANAO audit provided timely assurance over this function following these significant changes. The Department will enhance its controls in the areas highlighted by the ANAO. The Department has already implemented some of the ANAO suggestions such as adding an explicit reference to reporting obligations on disputed or fraudulent transactions to the acknowledgement form signed by new cardholders.

### **Geoscience Australia**

24. Geoscience Australia welcomes the ANAO's audit and the overall conclusion that Geoscience Australia is effectively managing credit card usage.

25. Geoscience Australia accepts the audit recommendations and thanks the ANAO for identifying areas where Geoscience Australia has opportunity to improve.

# Audit Findings

# 1. Introduction

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*This chapter provides an overview of the use of credit cards by Australian Government agencies. It also outlines the audit approach.*

## Credit card use by Australian Government agencies

### Introduction

**1.1** Commonwealth credit cards (credit cards) are widely used by Australian Government agencies as a convenient and flexible approach to purchase goods and services to meet business needs. Credit card expenditure can be considerable, with some large agencies spending tens of millions of dollars. These purchases are generally low-value and routine. Depending on an agency's particular responsibilities, common items of expenditure include airfares, accommodation, taxis and office supplies. In recent years, agencies have usually established their own credit card arrangements with a credit card provider. However, in 2012–13 agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) are transitioning to a common credit card provider as the form of payment for certain airline, accommodation and car rental bookings as part of the Whole-of-Australian-Government (WoAG) Travel Services Arrangements (TSA).<sup>13</sup> As a result of these arrangements, the use of credit cards by agencies will continue to be extensive<sup>14</sup>; and in some agencies, the number of staff using credit cards may increase.<sup>15</sup>

**1.2** Whether card services are provided to agencies through individual contracts or a common contract, the widespread use of credit cards can expose agencies to the risk of inappropriate or unauthorised expenditure. Agencies

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<sup>13</sup> Under the WoAG TSA established by the Department of Finance and Deregulation (Finance) a common credit card provider is used by agencies as the form of payment for domestic air travel (and international air travel originating in Australia), domestic accommodation and domestic car rental bookings. The only exception occurs when an agency pays its staff a travel allowance for accommodation. Refer to <http://www.finance.gov.au/procurement/travel-and-related-services/faqs.html> for details. Accessed 6 March 2013.

<sup>14</sup> Under the WoAG TSA, agencies may choose to use virtual accounts that operate in much the same way as a card-in-hand, but have no physical plastic card attached to it. In this situation, payments for flights, accommodation and car rentals would be made using the virtual card account number, without the need for travellers to be provided with a physical card-in-hand, or even the need to know the number of their 'virtual' card. The WoAG TSA provides agencies with an option to use a card-in-hand product to meet expenses such as for meals and incidentals, as well as general purchasing expenses. Agencies may also choose to enter their own credit card arrangements for non-travel expenditure.

<sup>15</sup> In some agencies, credit cards were previously not used to pay for travel expenditure.

therefore should establish controls to ensure credit cards are used appropriately for official purposes.

**1.3** Credit cards are expected to be issued by agencies to only those officials who have a business need. Credit card expenditures can be considerable, with some agencies spending tens of millions of dollars using cards.<sup>16</sup> To help provide some context for this audit, the ANAO obtained information on credit card use from 11 agencies<sup>17</sup>, who employ some 55 000 staff. On average these agencies provided credit cards to 16 per cent of their staff, with an average credit card expenditure per cardholder of some \$8500 per annum.

### **Major agency controls over credit card use**

**1.4** It is important for agencies to have policies and procedures ('controls') in place so that credit cards are used for official purposes. Relevant controls relate to:

- the issue and return of credit cards;
- allowed uses of the credit card, and associated responsibilities;
- arrangements for the cardholder to confirm the validity of credit card transactions and to maintain appropriate expenditure documentation (such as receipts);
- arrangements for handling instances of unrecognised transactions or inadvertent misuse;
- arrangements for independent or managerial review of the cardholders' credit card use; and
- arrangements for periodic monitoring and review of credit card use across the agency.

These controls, the associated risks and typical responsibilities for action are shown in Figure 1.1 below.

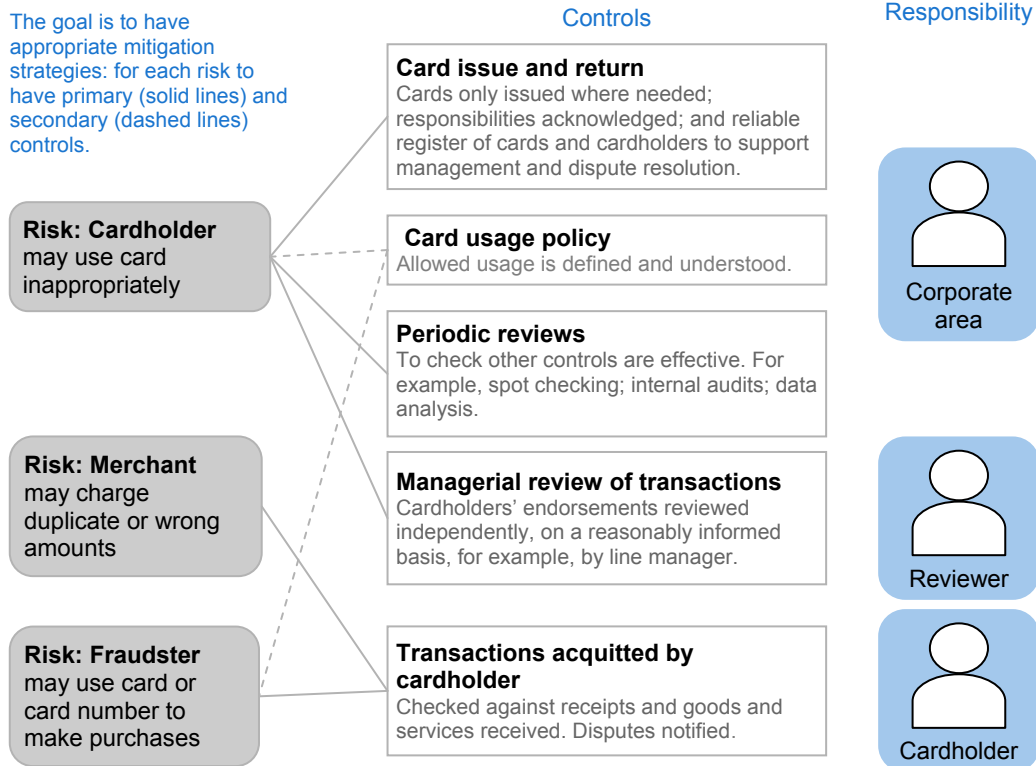
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<sup>16</sup> Agencies do not publicly report their credit card expenditure.

<sup>17</sup> See Appendix 2 for details of a survey of 11 agencies' credit card use.

**Figure 1.1**

**Typical controls to mitigate risks in the use of credit cards**



Source: ANAO.

**1.5** It is generally accepted that the person in the best position to check for errors by merchants and external fraud is the cardholder; and the person in the best position to check for errors or fraud by the cardholder is an appropriate independent or managerial reviewer. The reviewer is expected to be familiar with the relevant agency guidelines for credit card use, and have knowledge of the activities of the cardholder. The timeliness and diligence of these two checks is also important as late acquittal is likely to reduce their effectiveness and therefore increase the risk of fraud being undetected. To ameliorate any weakness in these two controls, it is also prudent to have a secondary control, such as periodic reviews of random or targeted samples of credit card transactions.

## Legislation and guidance related to credit cards

1.6 Requirements relating to the use of credit cards are provided in the FMA Act and the *Financial Management and Accountability Regulations 1997* (FMA Regulations).<sup>18</sup> These requirements relate to such matters as the need to make efficient, effective, economical and ethical use of Commonwealth resources, ensuring all expenditure is appropriately authorised and the imposition of penalties for misuse of credit cards.

1.7 Each year, Chief Executives of agencies are required to provide a Certificate of Compliance, reporting on compliance with the Australian Government's financial management framework. Misuse<sup>19</sup> of credit cards is required to be reported as non-compliance with section 60 of the FMA Act in the agency's Certificate of Compliance. The number of reported instances of non-compliance against section 60 of the FMA Act between 2006–07 and 2011–12 is outlined in Table 1.1.

**Table 1.1**

### Certificate of Compliance<sup>20</sup>—Reported instances of non-compliance against section 60 of the FMA Act<sup>21</sup>

Number of instances of non-compliance	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12
Number of agencies reporting instances of non-compliance against section 60	18	31	32	43	42	50
Reported instances of non-compliance against section 60	224	1081	704	647	575	642

Source: Data provided by the Department of Finance and Deregulation.

<sup>18</sup> Key legislation pertaining to credit cards includes FMA Act sections 38, 44 and 60, and FMA Regulations 7–12 and 21.

<sup>19</sup> In regard to misuse of credit cards, section 60 subsection 1 of the FMA Act specifies an official or Minister must not use a Commonwealth credit card, or a Commonwealth credit card number, to obtain cash, goods or services otherwise than for the Commonwealth. Subsection (1) does not apply to a particular use of a Commonwealth credit card or Commonwealth credit card number if: (a) the use is authorised by the regulations; and (b) the Commonwealth is reimbursed in accordance with the regulations.

<sup>20</sup> The Certificate of Compliance process is based on a self-assessment by agencies. Individual agency results are aggregated and published in an annual report to Parliament. Refer to [http://www.finance.gov.au/publications/certificate-of-compliance-report/doc/2011-12\\_certificate\\_compliance\\_report.pdf](http://www.finance.gov.au/publications/certificate-of-compliance-report/doc/2011-12_certificate_compliance_report.pdf) for details. Accessed 30 April 2013.

<sup>21</sup> The reported instances of non-compliance against section 60 of the FMA Act include instances of misuse of Cabcharge vouchers; and both deliberate and accidental misuse of credit cards. Based on information provided by agencies through the Certificate of Compliance process, the majority of reported instances of non-compliance with section 60 of the FMA Act relate to the accidental misuse of credit cards by officials.

**1.8** Chief Executive's Instructions (CEIs) generally provide each agency's policy on the use and administration of credit cards. These are usually supplemented by operational guidance and procedures. The Department of Finance and Deregulation (Finance) has issued guidance on the development of CEIs, including in relation to credit cards.<sup>22</sup>

## Previous audits

**1.9** The ANAO previously assessed controls over the use of credit cards by four agencies in Report No.37 2007–08 *Management of Credit Cards*. That report found the combined effect of policies, procedures and administrative actions provided generally sound controls over the issue and cancellation of credit cards, but that the effectiveness of controls over the use of credit cards varied. The audit made four recommendations relating to credit card issue, expenditure review processes, and management of relationships with credit card providers. Since the previous audit, there has been broader use by Australian Government agencies of electronic finance systems for the acquittal and review of credit card transactions (rather than use of paper credit card statements).

## Audit approach

### Audit objective, criteria and scope

**1.10** The audit objective was to assess whether Australian Government agencies were effectively controlling the use of credit cards for official purposes.

**1.11** The ANAO's assessment was based on the following criteria:

- agencies have sound arrangements to control the issue and return of credit cards; and
- controls over individual purchases are sound and operating effectively.

**1.12** The scope of the audit included the credit card controls in three agencies: the Australian Trade Commission (Austrade); the Department of the Prime Minister and Cabinet (PM&C); and Geoscience Australia (Geoscience)

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<sup>22</sup> The Department of Finance and Deregulation, *The Model CEIs*, version 2, issued 26 November 2012, p. 41, available at <http://www.finance.gov.au/publications/finance-circulars/2011/docs/model-ceis.pdf>; accessed 6 March 2013.



during 2011–12. Relevant information about each of the audited agencies is provided in Table 1.2 below.

**Table 1.2**

**Contextual information about the audited agencies**

	<b>Austrade</b>	<b>PM&amp;C</b>	<b>Geoscience</b>
Role	Austrade advances Australia's trade, investment and education promotion interests through information, advice and services to business, the education sector and governments; and also provides consular and passport services in specific locations overseas.	PM&C's primary role is to provide policy and implementation advice and support to the Government.	Geoscience supports informed decisions about the use of resources, the management of the environment, and community safety by undertaking geoscientific research, and maintaining and providing basic geoscientific data.
Number of staff (as at June 2012)	985	720	762
Overall expenditure in millions (for 2011–12)	\$ 201.9	\$ 218.4	\$ 187.5
Geographic location	Worldwide operations, major offices in Sydney and Canberra.	Mainly Canberra based.	Mainly Canberra based.
Examples of common credit card use	Airfares and accommodation; official hospitality; and office supplies.	Airfares and accommodation; support for government events; and office supplies.	Office supplies; and scientific equipment and supplies.
Agency's approach to credit card use, based on their business context	A high proportion of staff have regular travel and/or ad hoc purchasing requirements and these staff are widely located. Approximately 80 per cent of Austrade staff have an official credit card.	A moderate proportion of staff need to travel and/or have other purchasing requirements. Approximately 37 per cent of PM&C staff have an official credit card.	A small proportion of staff have purchasing responsibilities. Many staff travel, and this expenditure has been previously managed without credit cards. Approximately ten per cent of Geoscience staff have an official credit card.

Source: Summary prepared by ANAO from public information and audit fieldwork.

Note: In common with all other agencies, Geoscience will transition to the Australian Government Travel Card, which is likely to result in an increase in the proportion of staff that use a credit card.

## Audit methodology

**1.13** Fieldwork was conducted in the audited agencies' national offices between August 2012 and December 2012 and involved:

- document and file reviews, including credit card policies and guidance, and documentation relating to samples of credit card issues and cancellation;
- interviews with relevant agency staff;
- automated analysis of all credit card transactions for 2011–12<sup>23</sup>; and
- assessment of the acquittal and internal review of a sample of 2011–12 credit card transactions.

The audit methodology was designed to provide reasonable assurance that the agencies' credit card controls were appropriate to mitigate common risks.<sup>24</sup>

**1.14** The ANAO also undertook a survey of the credit card arrangements of 11 agencies to provide context for this audit. The results of the survey are mentioned as appropriate in the report, and are summarised in Appendix 2.

**1.15** Additional information relevant to the audit scope and methodology is provided in Figure 1.2 below.

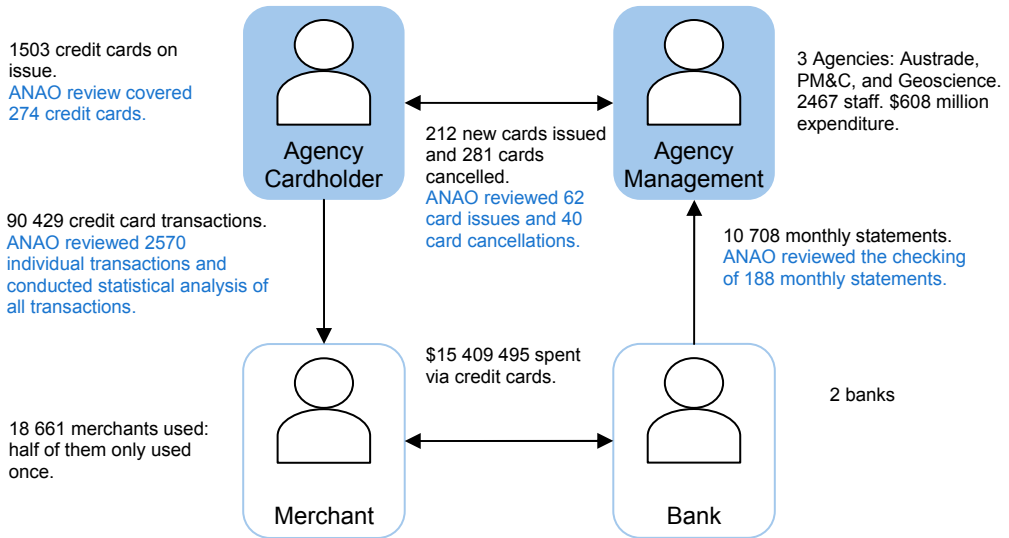
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<sup>23</sup> For the purpose of analysis, the ANAO reviewed transactions for the 12 monthly statement periods most closely aligned to financial year 2011–12.

<sup>24</sup> For example, the audit assessed whether credit card purchases were approved by the cardholder and reviewed by management and whether the goods and services appeared reasonable; but the audit did not assess whether any of the goods and services purchased may have been diverted to personal use. In addition, the audit considered the nature of the merchants used, and assessed the legitimacy of a sample of unusual or unfamiliar merchants, but did not independently check all 18 661 merchants used by the agencies' cardholders during 2011–12.

**Figure 1.2**

**2011–12 Credit card statistics and audit coverage for the three agencies**



Source: ANAO analysis of information for 2011–12 provided by the three agencies, and the agencies’ 2011–12 annual reports.

**1.16** The audit was conducted in accordance with the ANAO Auditing Standards, at a cost of approximately \$397 000.

**Report structure**

**1.17** The remaining chapters of this report are structured as follows:

Chapter	Chapter overview
2. Issue and Return of Credit Cards	Examines the policies and practices of the agencies subject to audit for the issue and return of credit cards.
3. Use of Credit Cards	Describes the main uses of credit cards in the agencies subject to audit, and assesses their policies for controlling the use of credit cards. The chapter also presents the results of testing a sample of transactions in each of the agencies to assess the application of the controls in practice.

## 2. Issue and Return of Credit Cards

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*This chapter examines the policies and practices of the agencies subject to audit for the issue and return of credit cards.*

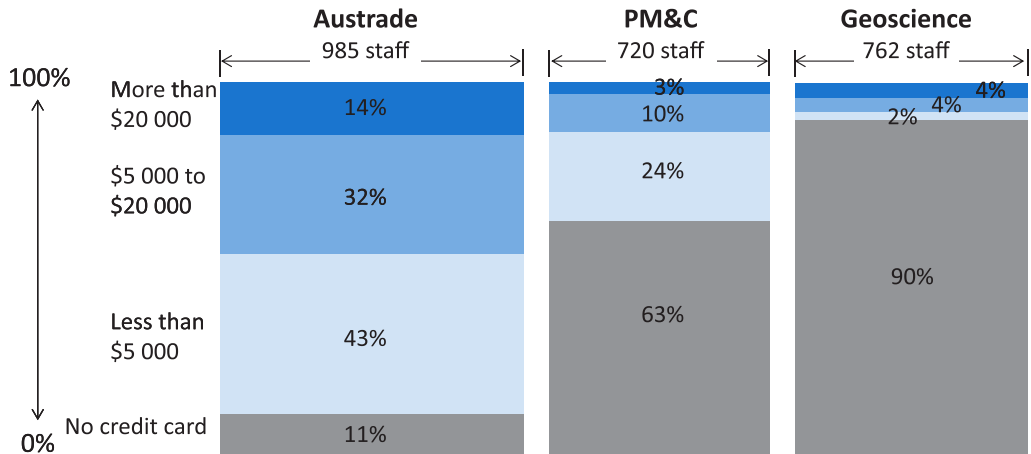
### Introduction

**2.1** An effective control framework will enable agencies to benefit from the convenience and flexibility credit cards can provide, while minimising the risk of misuse of credit cards. The timely issuing of credit cards to staff with a business need supports efficient and effective purchasing. The subsequent cancellation of cards immediately after staff members have no further business need reduces the risk of cards being misused.

### Identification of business need

**2.2** Each of the agencies had established criteria for obtaining a credit card and the associated credit limit. These criteria required potential cardholders to be officers who are regularly required to purchase goods and services. In the case of Austrade and PM&C, this included officers who were required to travel regularly.

**2.3** The differing business needs of the three agencies affected the proportion of staff with cards and annual expenditure using credit cards. For example, a high proportion of Austrade staff are regularly required to travel. Therefore, Austrade permits extensive use of credit cards for travel purposes and had around four times as many staff with credit card expenditure in excess of \$20 000 in 2011–12 compared to PM&C and Geoscience. In contrast, fewer Geoscience staff regularly travel, and the agency had made a business decision to pay travel allowance directly to staff to cover travel needs. Consequently, 90 per cent of Geoscience staff did not use a credit card. Figure 2.1 below presents the proportion of agency staff with credit cards, categorised by the amount spent using these cards in 2011–12.

**Figure 2.1****Proportion of staff with credit cards, categorised by amount spent in 2011–12**

Source: ANAO analysis of credit card transaction data for the agencies subject to audit, based on staff numbers and credit cards active at 30 June 2012. The proportions shown should be treated as indicative due to some limitations of historical data. The width of each column is proportional to the total number of staff; the height is in proportion to the percentage in each category; and the meaning of each category colour is shown on the left.

**2.4** To meet business needs, credit cards can be issued to people who are non-employees, for example contractors. Austrade issued credit cards to representatives of other Commonwealth or state government agencies hosted by Austrade at overseas posts, and to a small number of long-term contractors who travel as part of Austrade business. In addition, PM&C issued a small number of cards to secondees and to employees in the Prime Minister's official residences.

## Policies and practice for the issue of credit cards

**2.5** There are several important controls over the issue of credit cards for official purposes. These include limiting the issue of credit cards to those staff with a business need, establishing credit limits commensurate with the business need and clearly outlining the responsibilities of cardholders.

### Policies

**2.6** In general, the CEIs and procedural guidance of the agencies subject to audit established appropriate arrangements for the issue of credit cards. The policies and guidance covered such matters as: limiting the issue of credit cards to those staff with a business need; setting a credit limit which is appropriate to the business need; appropriate approval of the card issue;

obtaining appropriate agreement and acknowledgement from the cardholder that they understand and will abide by the agency's requirements; the responsibilities of cardholders; and the need to maintain records of credit card applications, cardholder agreement and acknowledgement forms and the issue of credit cards. See Appendix 3 for an example of a cardholder agreement and acknowledgement form.

2.7 The agencies policies and guidance could be improved by documenting:

- any special arrangements for the provision of credit cards to non-employees<sup>25</sup>;
- arrangements for the renewal of credit cards—as distinct from the initial issue of credit cards (to help ensure the continuing appropriateness of card issue and credit limits, and to update the cardholder's agreement to and acknowledgement of current agency requirements); and
- responsibility for maintaining a register of credit cards.<sup>26</sup>

2.8 In relation to arrangements for the provision of credit cards to non-employees, agencies need to be cognisant that providing a credit card to a person usually means that person legally becomes an *allocated official*. The term *allocated official* means:

an outsider (any person other than the Commonwealth, an official or a Minister) who performs a financial task. The outsider becomes an allocated official of the FMA Act agency when they are undertaking a financial task. Allocated officials are subject to all the requirements of the financial management framework that apply to officials, including the FMA legislation, the policies of the Commonwealth and the relevant agency's Chief Executive's Instructions.<sup>27</sup>

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<sup>25</sup> Austrade advised that there are relevant Memoranda of Understanding in place with other government agencies where staff from these agencies are hosted by Austrade at overseas posts. Austrade further advised that when cards are issued to contractors, the contractors are fully briefed on their responsibilities in relation to their use of the card. In both Austrade and PM&C all cardholders sign the agency cardholder agreement and acknowledgement form. The ANAO considers it is useful if policies and guidance regarding the issue of credit cards address the circumstances, and any associated additional requirements, which should apply when issuing cards to non-employees.

<sup>26</sup> In two agencies the list of credit cards on issue was incomplete.

<sup>27</sup> Department of Finance and Deregulation, Finance Circular No. 2011/01 *Commitments to Spend Public Money (FMA Regulations 7 to 12)*, p. 6. Refer to <http://www.finance.gov.au/publications/finance-circulars/2011/01.html> for details. Accessed 29 January 2013.

**2.9** In principle, there may be less scope to recover monies from non-employees in the event of credit card misuse. Therefore, it is prudent for all agencies to consider establishing lower credit limits for credit cards issued to non-employees as part of their policies. As part of their policies, agencies could also consider the use of contractual or other arrangements, which require acquittal of credit card transactions prior to fully remunerating the non-employee.

**2.10** Expenditure made with credit cards, like all public money, needs to be properly authorised according to the FMA Regulations.<sup>28</sup> The three agencies had arranged that all cardholders would have the appropriate delegation under FMA Regulation 9 as part of the process for issuing cards. In each agency this was done by providing cardholders with an FMA Regulation 9 delegation with a financial limit at least as much as the credit limit of the card.<sup>29</sup>

## Practice

**2.11** The ANAO assessed a sample of 62 credit cards issued across the three agencies.<sup>30</sup> For all cards in the sample issued during 2011–12 the required agreement and acknowledgement by cardholders was obtained and was available. The agreement and acknowledgement form could not be located in two cases of credit cards issued some years ago. Copies of the initial application forms, with agency approval of the business need and credit limits, were generally available.

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<sup>28</sup> In particular FMA Regulation 9 states that an approver must not approve a spending proposal unless satisfied, after making reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources (efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth). In the previous audit, Audit Report No.37 2007–08 *Management of Credit Cards*, there were some circumstances where FMA Regulation 9 approval was not given for some credit card purchases. FMA Regulation 12 requires approval of spending proposals to be documented. Finance Circular 2011/01 *Commitments to spend public money* states that for minor proposals, such as a taxi fare, a vendor statement/receipt (for example, a Cabcharge receipt) would suffice. For details refer to <http://www.finance.gov.au/publications/finance-circulars/2011/docs/Finance-Circular-2011-01-FMA-Regulations-7-12.pdf>; p. 35; accessed 6 March 2013.

<sup>29</sup> An alternative arrangement is to require the cardholder to obtain an FMA Regulation 9 approval before making individual purchases.

<sup>30</sup> Half the sample was of credit cards issued during 2011–12; the remainder was a random sample of cards issued earlier. Some credit cards were originally issued more than ten years ago. Having an appropriate acknowledgement of responsibilities form available for all cardholders is an important support for responding to any usage in contravention of current agency policies. See Appendix 3 for an example of a cardholder agreement and acknowledgement form.

## Policies and practice for the return of credit cards

**2.12** An important control over credit card use is to ensure that cards are returned and cancelled when no longer needed. For example, cards should be cancelled when cardholders no longer have a business need, or leave the agency.

### Policies

**2.13** In general, the three agencies' policies and guidance established appropriate arrangements for the return of credit cards. For example, the agencies would typically require staff members to return credit cards when they are no longer needed, whether due to cessation of employment, role changes or other factors.

**2.14** While existing policies and guidance are generally sound, they could be enhanced by:

- improving clarity in responsibilities for the final acquittal of the credit card transactions (particularly after the cardholder has left)<sup>31</sup>; and
- specifying recordkeeping requirements, namely recording details of credit card cancellations in the register of credit cards to enable agencies to have an up-to-date record of active cards.<sup>32</sup>

### Practice

**2.15** The ANAO examined the credit card use of all 281 cardholders who left the three agencies in 2011–12. Normal administrative practice is that when staff leave an agency, their credit card will be cancelled promptly and final acquittal is completed. For the 281 departing staff, there were no records of the cancellation of 15 credit cards (five per cent); and 25 credit cards (nine per cent) were cancelled more than 30 days after the staff member had departed.

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<sup>31</sup> For example, one agency's policies and guidance stated that the departing cardholder should leave receipts with their manager, but did not specify who was responsible for ensuring the final acquittal occurred; and another agency's policies and guidance required the departing cardholder to acquit their credit card expenditure before departing when in fact this may not be possible due to billing delays. The third agency's policies and guidance did not explicitly cover the issue.

<sup>32</sup> ANAO testing of a sample of 2011–12 credit card cancellations identified there were no records of cancellation for five per cent of cards cancelled.



Although none of these staff used their card after leaving the agencies<sup>33</sup>, the three agencies should seek to cancel credit cards for all departing staff in a timely manner, to strengthen the application of this key control over credit card use.

**2.16** The ANAO also examined a sample of 40 credit card cancellations for compliance with the agencies' policies and guidance. Typical procedural requirements include arrangements for the cardholder to surrender the credit card, and ensure the final credit card statement is acquitted.

**2.17** Documentation to show that all of the agencies' procedures were followed was available for less than half of the sampled credit card cancellations. In the absence of appropriate documentation it may be more difficult to resolve any disputed transactions. In some cases, the agencies relied on the records of the credit card provider, and did not keep independent records of cancellation requests.

## Conclusion

**2.18** A basic element in controlling credit card use is to effectively manage to whom, and the conditions under which, credit cards are made available to meet business needs. The three agencies had generally sound policies and procedures for the issue of credit cards, covering such matters as eligibility, credit limits, approval arrangements and the responsibilities of cardholders. Areas for improvement to policy and guidance material by the agencies included documenting:

- any special arrangements for the provision of credit cards to non-employees<sup>34</sup>;
- arrangements for the renewal of credit cards—as distinct from the initial issue of credit cards; and
- responsibility for maintaining a register of credit cards.<sup>35</sup>

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<sup>33</sup> For PM&C and Geoscience, there were no credit card transactions recorded after the date the cardholder left. For Austrade there were a number of transactions after the cardholder departed. These transactions had reasonable explanations, for example: refunds or delayed processing charges arising from use of the credit card prior to the cardholder's departure. In addition, there was one transaction after cancellation due to a merchant inappropriately using the card number which Austrade reported to the credit card provider as fraudulent. The amount was subsequently refunded to Austrade.

<sup>34</sup> For example, Austrade issued credit cards to representatives of other Commonwealth or state government agencies hosted by Austrade at overseas posts, and to a small number of long-term contractors who travel as part of Austrade business. In addition, PM&C issued a small number of cards to secondees and to employees in the Prime Minister's official residences.

**2.19** The ANAO examined a sample of 62 credit cards issued by the three agencies. The credit cards were generally issued in accordance with agency requirements. For all cards in the sample issued during 2011–12, the required agreement and acknowledgement by cardholders was obtained and was available.

**2.20** To help ensure credit cards only remain available to staff with an identified business need, it is important to have credit cards returned when no longer needed, particularly when cardholders leave the agency or change function. The three agencies all had appropriate policies and guidelines in this regard. Areas for improvement related to:

- improving clarity in responsibilities for the final acquittal of the credit card transactions (particularly after the cardholder has left); and
- specifying recordkeeping requirements, namely recording details of credit card cancellations in the register of credit cards.

**2.21** The ANAO examined the credit card use of all 281 cardholders who had left the three agencies in 2011–12. For these departing staff, there were no records of the cancellation of 15 credit cards (five per cent), and 25 credit cards (nine per cent) were cancelled more than 30 days after the staff member had departed. There were no credit card transactions made by these staff after they left the agency.

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<sup>35</sup> In two agencies the list of credit cards on issue was incomplete.

## 3. Use of Credit Cards

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*This chapter describes the main uses of credit cards in the three agencies subject to audit, and assesses their policies for controlling the use of credit cards. The chapter also presents the results of testing a sample of transactions in each of the agencies to assess the application of the controls in practice.*

### Introduction

**3.1** The use of credit cards places responsibility on individual cardholders to meet appropriate standards of accountability and transparency in purchasing and paying for goods and services. A key element of an effective control framework is that agencies have policies and practices which support appropriate and timely acquittal and review of all credit card expenditure.

### Nature of credit card transactions at the agencies subject to audit

**3.2** Credit cards are widely used by Australian Government agencies as a convenient and flexible approach to purchase goods and services to meet business needs. Credit cards are commonly used to purchase items such as airfares, accommodation, taxis and office supplies. These purchases are generally low-value and routine. For example, in 2011–12, the proportion of individual credit card transactions valued at more than \$2000 was less than one per cent for Austrade, less than two per cent for PM&C and less than four per cent for Geoscience. The largest individual credit card transaction among these agencies in 2011–12 was approximately \$34 000 for airline expenditure.

**3.3** The level and nature of credit card expenditure varied between the three agencies, reflecting their different business needs and credit card policies. For example:

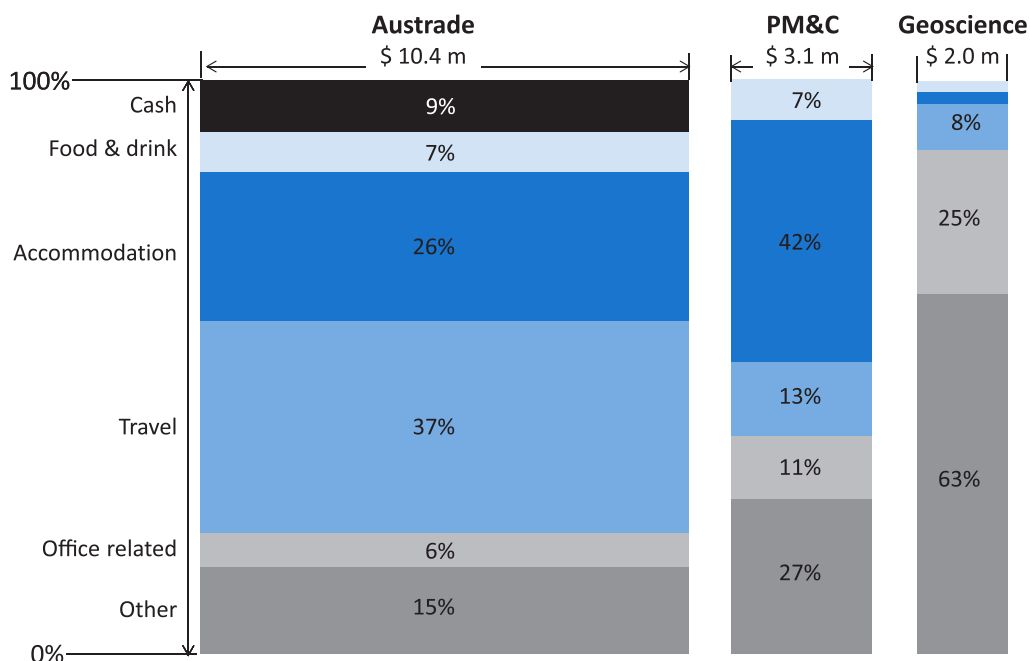
- in 2011–12 Austrade spent some \$10.4 million using credit cards, which was more than three and five times as much as PM&C and Geoscience, respectively. The majority of Austrade’s credit card expenditure was on travel (predominantly airfares) and accommodation. Of the three agencies, only Austrade allowed cash to be withdrawn using credit cards;

- the large proportion of credit card expenditure by PM&C on accommodation reflected its responsibilities for hosting significant events and visiting delegations<sup>36</sup>; and
- Geoscience spent less on travel through credit cards because it did not use cards to pay for staff travel allowances or taxi fares. The large proportion of Geoscience’s credit card expenditure categorised as ‘other’ included the cost of scientific exhibitions and fieldwork purchases.

The amount spent using credit cards in 2011–12 by the three agencies, categorised by the broad purpose of the expenditure, is shown in Figure 3.1.

**Figure 3.1**

**Amount spent using credit cards in 2011–12, categorised by broad purpose**



Source: ANAO analysis, based on the Merchant Category Code of individual transactions. The width of each column is proportional to the total expenditure using credit cards; the height is in proportion to the percentage in each category; and the meaning of each category colour is shown on the left.

Note: ‘Food & drink’ and ‘Accommodation’ at Geoscience are each 2 per cent.

<sup>36</sup> For example, during the period covered by the audit PM&C hosted the Commonwealth Heads of Government Meeting in Perth in October 2011.

## Overview of the process for use and acquittal of credit cards

**3.4** Agencies are responsible for developing and implementing controls to support the appropriate use of credit cards. This includes verifying credit card expenditure, and taking corrective action on inappropriate or incorrect transactions.

**3.5** The typical steps associated with making and acquitting a credit card transaction are:

- (a) a decision is made that it will be value for money to purchase a good or service from a particular supplier;
- (b) the purchase is made, using the credit card;
- (c) the cardholder obtains and retains appropriate documentation, such as a tax invoice or other receipt;
- (d) the transaction details are passed from the merchant to the credit card provider, then to the agency—usually via electronic transfer to the agency’s financial system;
- (e) the transaction details are provided to the cardholder for acquittal—often electronically via the agency’s financial system;
- (f) the cardholder<sup>37</sup> checks the transaction is valid (generally by comparing it to the receipts retained);
- (g) for valid transactions, additional accounting information is often added by the cardholder (for example, an account or project code, an explanation of the business purpose, or a disaggregation of a total into parts);
- (h) for unrecognised transactions, a dispute<sup>38</sup> will be flagged for resolution;
- (i) acquitted transactions are forwarded to a nominated reviewer—often the cardholder’s manager—to be reviewed for reasonableness; and

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<sup>37</sup> Often the cardholder, particularly more senior cardholders, has a nominated assistant who prepares the reconciliation and acquittal for sign-off by the cardholder.

<sup>38</sup> In some agencies, disputed transactions are managed by the cardholder; in other agencies they are managed centrally.

- (j) acquitted and reviewed transactions are reported to the central finance area to be used in reconciling total credit use and making payments to the credit card provider.

**3.6** For all three agencies, details of credit card transactions are forwarded by the credit card provider to the agency electronically using the agency's financial system. Austrade and Geoscience acquit credit card transactions electronically; whereas PM&C acquits transactions using paper documentation.

## Policies and practice for acquittal and review

**3.7** An important control over credit card use is to ensure that there is timely acquittal and review of credit card expenditure. In Austrade and PM&C, credit card transactions are to be provided to cardholders for acquittal on a monthly basis. In Geoscience, this process occurs more frequently.<sup>39</sup> The ANAO considered the agencies' policies and practices for the acquittal and review of credit card transactions.

### Policies

**3.8** In general, the agencies' policies and guidance established appropriate arrangements for the acquittal and review of credit card transactions. The policy and guidance developed in each agency covered such matters as:

- the need for cardholders to retain appropriate documentation of their use of credit cards (such as original receipts), and the arrangements where such documentation is mislaid (for example, provision of a suitable declaration by the cardholder);
- the need for the cardholder to subsequently acquit their credit card transactions;
- action to be taken by the cardholder for any unrecognised or disputed transactions;
- the responsibilities of an independent reviewer of the cardholder's acquittal; and

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<sup>39</sup> In Geoscience, many transactions can be acquitted by the cardholder within two working days of the merchant debiting the card. Cardholders are made aware that transactions are available for acquittal through email. Having credit card transaction data available in such a timely manner has the potential to improve the reliability of checking, and ensure purchases have been made for official purposes.

- responsibilities for responding to any shortcomings in cardholder actions (such as late acquittal, absence of documentation or inappropriate use).

**3.9** The agencies' guidance material could be strengthened by documenting:

- the procedures to be followed in the event of inadvertent private use<sup>40</sup> (Austrade and Geoscience);
- any additional approvals that are required for spending proposals that relate to allowances or benefits involving the cardholder (for example, approval of their own expenses) (Geoscience and PM&C); and
- additional information on the approach to be taken by the reviewers of credit card acquittals (Geoscience and PM&C).<sup>41</sup>

#### *Judgements on the appropriate quality of goods and services*

**3.10** Inherent in agencies' decisions to issue staff with credit cards is an understanding that these staff will have to make judgements about the quality and cost of the goods and services they purchase. Such judgements should take into account legitimate business needs and public expectations regarding the appropriate use of public money. For example, there is likely to be general public acceptance that it is appropriate to provide more expensive meals and accommodation for a visiting delegation of foreign government dignitaries than for officials attending a training course.

**3.11** Agencies generally provide guidance on expected levels of expenditure for accommodation, meals and representational activities, and the circumstances where the spending officer requires additional approval. This guidance is usually separate to guidance on the use of credit cards. Even with guidelines in place, it is prudent for both cardholders, and those staff reviewing cardholder expenditure, to remain alert to the judgements being made on the degree of quality and cost for purchased goods and services. Examples of purchases where judgement often plays a key role include expenditure on: representational activities; alcohol; working meals for officials;

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<sup>40</sup> Although agencies may prohibit private use, it is useful to document the actions cardholders should take if this occurs and the arrangements for repayment. For example, the cardholder would preferably draw the inadvertent use to their manager's attention immediately; the manager should satisfy themselves the money has been repaid; and preferably there would be guidance on the processes to be followed to ensure this has occurred.

<sup>41</sup> Refer to paragraph 3.17 for further discussion.

and taxis for staff to travel between work and home (for example, when staff are asked to work late).

**3.12** It is important that all cardholders in agencies remain cognisant of the need to obtain value for money when making purchasing decisions. Over time, different parts of an agency may develop different standards on matters of judgement and the standards of the agency may diverge from justifiable levels. For these reasons, agencies need to remain vigilant to ensure that judgements on quality and cost made by cardholders remain appropriate and consistent, in order to reduce potential financial and reputational losses.

#### *Role of the reviewer*

**3.13** Appropriate independent review of credit card acquittals, supported by sound judgement by the reviewer, is an important control, particularly in relation to discouraging and detecting any errors or fraud by the cardholder. Such reviews are typically, but not always, carried out by the cardholder's manager. A useful principle is that credit card transactions be reviewed by a person who is familiar with the relevant guidelines for credit card use, who has knowledge of the activities of the cardholder, and who is in a position to make an independent judgement on the appropriateness of use of the credit card. In addition, to assist reviewers fulfil their role, it is useful that their responsibilities are described clearly and simply in readily accessible documentation.

**3.14** The specific responsibilities of reviewers of credit card acquittals may vary between agencies, as a result of differing use of credit cards and supporting systems.<sup>42</sup> Typical responsibilities will include forming a reasonable view on whether:

- the expenditure is for official purposes (and if not, ensuring appropriate corrective action is arranged) and is consistent with the reviewer's knowledge of the cardholder's responsibilities and activities;

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<sup>42</sup> For example, if an agency's financial system automatically manages the timeliness of acquittal, or reconciliation with other approvals such as for travel, there may be no benefit in also requesting reviewers to check these details.



- the amounts are appropriate for the purpose, and there are arrangements for necessary approvals and documentation to satisfy FMA Regulations 9 and 12<sup>43</sup>;
- appropriate supporting documentation of individual credit card transactions (such as receipts) is available and the supporting documentation is consistent with the acquittal statement;
- relevant associated approvals have been given for expenditure, such as for travel, and the expenditure is consistent with the terms of the associated approval, including the value; and
- expected formal procurement processes have been followed where applicable.

**3.15** The main responsibility when using a credit card rests with the cardholder. The reviewer does not need to independently repeat assessments that should have been made by the cardholder, such as whether a particular expenditure represents value for money. On the other hand, the reviewer has an important responsibility in ensuring expenditure is consistent with agency requirements by making judgements on the reasonableness of the expenditure being reviewed. Reviewers should also monitor that the agency's credit card and other procedures are being followed. This is likely to involve some inquiry and detailed checking, although the extent will vary based on the individual circumstances of the expenditure.

**3.16** The three agencies had provided guidance for reviewers of credit card acquittals. A summary of the guidance provided by Austrade is shown in the example below.

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<sup>43</sup> These regulations cover: the approval of a spending proposal, and the need for the expenditure to be efficient, effective, economic and ethical, and not inconsistent with the policies of the Commonwealth; and the recording of the approval of the spending proposal. As mentioned in paragraph 2.10, the three agencies had arranged that all cardholders would have the appropriate delegation under FMA Regulation 9 as part of the process for issuing cards, with a financial limit for credit card purchases at least as much as the credit limit of the card.

### Example of guidance to reviewers of credit card acquittal

The following are details that need to be considered by approval officers in the course of examining credit card statements prior to their approval:

- The card has been used for payment of official expenses only—where personal expenses (other than coincidental personal expenses) appear on the statement, they are to be reported to the Manager, Finance and Administration. All personal expenses must be charged to account code (*agency specific information omitted*) and recovered from the cardholder;
- All official expenses are reasonable as to their purpose and amount. The approver may reject the statement or otherwise ask the cardholder for an explanation, or request invoices, receipts or other documentation supporting the transaction;
  - The amount of cash advances for minor incidental expenditure (up to *agency specific information omitted*) is reasonable for the length of time travelled and the locations visited;
  - Meal expenses are reasonable for the locations visited (meal expenses should not exceed the amounts in the Daily Meal Limits Calculator);
  - Accommodation expenses are reasonable for the locations visited (in Australia, agency preferred hotels should be used);
  - Representation/entertainment expenses are reasonable and justifiable (refer to representation/entertainment documentation for details); and
  - Useful narration has been used to describe transactions;
- Unused cash advances are charged to account code (*agency specific information omitted*) and recovered from the cardholder;
- The correct Cost Centre has been used for all transactions;
- Disputed transactions have been reported to Accounts Payable, Canberra and charged to account code (*agency specific information omitted*); and
- The credit card statement has been acquitted and forwarded to the approver in a timely manner (to enable completion of statement processing within 30 days of the date of the statement).

Source: Adapted from Austrade *Administrative Standards Manual: Finance-Payment/Acquittal of a Corporate Liability Purchasing or Credit Card Statement*.

**3.17** The three agencies varied slightly in the responsibilities they specified for the person reviewing the credit card acquittal. For example:

- as indicated above, Austrade’s guidance included that reviewers should ensure that the card has only been used for official purposes, and should consider the reasonableness of the expenditure, as to its purpose and amount prior to approval;
- PM&C’s guidance states that reviewers are required to verify that all purchases are work related and compliant with the agency’s CEI on credit cards; and

- Geoscience's guidance focused the responsibility of the reviewer on confirming that supporting documentation is provided for credit card expenditure.

Across agencies, it is useful for the responsibilities of reviewers to explicitly include forming a reasonable view on whether credit card expenditure is work-related, and the expenditure was reasonable as to its purpose and amount.

## Practice

**3.18** To assess the effectiveness of the overall control environment of the three agencies in relation to purchases with credit cards, the ANAO tested:

- a random sample of monthly credit card statements in each of the agencies, to provide an understanding of how well credit card controls were operating; and
- samples of transactions for which there was a potentially higher risk of misuse or reduced effectiveness of controls.<sup>44</sup>

### *Timeliness of acquittal and availability of supporting documentation*

**3.19** The ANAO assessed the acquittal and review of a random sample of 121 monthly credit card statements across the three agencies for the period January to June 2012. For each agency, the ANAO assessed compliance against the agency's requirements for timely acquittal and retention of documentation supporting credit card transactions. Appropriate documentation assists the cardholder in verifying they have been charged the expected amounts, and provides reviewers with additional detail generally not present on the credit card statement.<sup>45</sup> Timely checking by the cardholder and a reviewer helps improve the reliability of checking. Details of the assessment are provided in Table 3.1 below.

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<sup>44</sup> These included transactions with unusually high expenditure for an item, unusual types of merchants, potentially duplicated charges, transactions by high spending cardholders, and transactions undertaken by members of the agencies' executive management groups.

<sup>45</sup> For example, the credit card transaction may simply indicate that \$100 was spent at a supermarket; whereas the receipt would indicate the details of the purchase, such as photocopy paper, tea and coffee for the office, or frozen vegetables. Supporting documentation can be used to identify a purchase which was not for an official purpose.

**Table 3.1****Timeliness of acquittal and availability of supporting documentation for a random sample of credit card statements**

	<i>Total</i>	<i>Austrade</i>	<i>PM&amp;C</i>	<i>Geoscience</i>
Number of monthly credit card statements reviewed <sup>46</sup>	121	71	38	12
Number of transactions reviewed	927	623	171	133
Value of transactions reviewed	\$265 507	\$109 031	\$67 534	\$88 942
Timely acquittal <sup>47</sup> , by number of transactions (%)	94.5%	100.0%	71.4%	99.3%
Timely acquittal, by value (%)	94.0%	100.0%	78.4%	99.6%
Documentation (e.g. receipt) available, by number of transactions (%)	96.0%	95.5%	94.2%	100.0%
Documentation (e.g. receipt) available, by value (%)	98.9%	98.3%	98.4%	100.0%

Source: ANAO analysis of the agencies' credit card transactions

**3.20** All of the agencies had different timeframes for acquittal. Austrade and PM&C cardholders were required to acquit by the 20<sup>th</sup> and 25<sup>th</sup> of the month of distribution of the statement to the cardholder respectively. Geoscience required cardholders to acquit transactions within 60 days of the transaction date. The timeliness of acquittal by Austrade and Geoscience was at or near to 100 per cent. However, in PM&C nearly 30 per cent of transactions examined were not acquitted within the agency's required timeframe. About two-thirds of these transactions had evidence of acquittal—typically some 30–60 days after the due date. For the remaining third, documentation was not available to establish the fact or date of acquittal. In February 2013, PM&C reinforced its acquittal requirements through reminders by the Chief Finance Officer to staff

<sup>46</sup> The ANAO's original sample contained 40 PM&C monthly credit card statements. Under a Memorandum of Understanding (MOU), PM&C permitted use of its credit card arrangements to a newly established portfolio agency during 2011–12. The acquittal of two of the monthly credit card statements (26 transactions with a value just over \$1000) in the ANAO's sample was the responsibility of the new agency. PM&C's results have been adjusted to reflect this. Under the terms of the MOU, PM&C was to invoice the agency monthly to recover costs incurred on its behalf. The ANAO identified that for the two credit card statements reviewed (containing details of transactions incurred in April and May 2012), PM&C did not invoice the agency until September 2012.

<sup>47</sup> Acquittal should be: for Austrade by the 20<sup>th</sup> of the month of distribution of the statement to the cardholder; for PM&C by the 25<sup>th</sup> of each month; and for Geoscience within 60 days of the transaction date. Geoscience advised that the longer acquittal period is due to the fact that it is routinely required to purchase specialist equipment, often from overseas, which may not be received for some time.

with outstanding acquittals; and this focus will need to be maintained to strengthen the application of these requirements in relation to credit card use.

**3.21** Appropriate documentation was available for all of Geoscience's transactions in the random sample. For Austrade<sup>48</sup> and PM&C, documentation was not available for around five per cent of the number of the transactions. These were mainly low value transactions. For the sample of transactions, ANAO analysis of the merchants used and available receipts showed that the goods and services purchased were reasonable in light of the agencies' business needs and credit card policies.

#### *Reviews of specific categories of credit card transactions*

**3.22** In addition to reviewing the operation of credit cards for a random sample of monthly statements, the ANAO reviewed transactions in several specific categories where the risks of misuse or of less effective controls were potentially higher. These categories were: unusual transactions<sup>49</sup>; transactions with duplicated details; transactions for cardholders with the highest expenditure; and acquittals for cardholders in the executive management group of each agency.

**3.23** The ANAO examined a sample of 177 apparently unusual transactions, with a total value of approximately \$142 000. For example, the sample included a very high taxi fare, and unusual types of services such as payments to bowling alleys, charities, party organisers, detective agencies and providers of medical services. The unusual transactions reviewed were generally satisfactorily explained. For example: a \$5000 restaurant bill was an approved opening event for a trade mission; and a \$1000 taxi fare was an error which was immediately corrected. For Austrade, two unusual transactions in the sample were in fact external frauds committed on the credit card. Both cases were identified by the agency and the credit card provider, which is an indication of effective review. The fraudulent transactions were refunded, and the credit cards cancelled. However, in a small number of cases, mainly in PM&C, sufficient documentation was not available to confirm the legitimacy of some mainly low-value transactions.

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<sup>48</sup> Austrade policy does not require travellers to obtain and retain a receipt for official travel-related expenditure for minor amounts (up to \$20 per day).

<sup>49</sup> These were transactions that ANAO considered had the potential to be not for official purposes or transactions that although potentially for official purposes were for unusual amounts.

**3.24** Across the sample of unusual transactions there were five instances of personal use. These transactions had been identified and repaid by the cardholders.

**3.25** The ANAO also examined a sample of transactions with duplicated details (that is, the same date, merchant and amount), as these could represent a single purchase presented for payment more than once. The sample comprised 148 transactions valued at approximately \$100 000. There were 67 sets of duplicate details.<sup>50</sup> Approximately 75 per cent of the sets of duplicate transactions were supported by receipts and represented genuine multiple purchases. Approximately 15 per cent of the duplicated transactions were disputed by the cardholder and refunded by the credit card provider. These actions indicate that the cardholders were alert to their responsibilities.

**3.26** For the remaining 10 per cent of the duplicated transactions, payments were made by the agencies without receipts. While the amounts involved were generally less than \$100, and the cardholder may have recalled details of the purchases, there is nonetheless a risk that incorrect charges have been paid. The ANAO suggests that all agencies consider periodic reviews of transactions with duplicated details to assess whether the transactions are correct.

**3.27** For cardholders with high levels of expenditure, the generally greater volume of transactions will tend to increase the risks of delays in acquittal and of reduced levels of scrutiny. The ANAO examined the acquittal of the last three monthly statements in 2011–12 for several of the highest spending cardholders at each agency; this sample included 790 transactions valued at approximately \$465 000. These cardholders spent about six times as much per month with their credit cards as the average cardholder in the agency. In most cases, the cardholders had roles in central purchasing for the agency; in some cases the cardholder had extensive overseas travel. For the transactions reviewed there was reasonable compliance with agency rules, with appropriate documentation for 98 per cent of the value of the transactions, and timely acquittal for 96 per cent of the value.

**3.28** There may also be additional risks associated with the acquittal and review of credit card expenses by cardholders in the executive management group of an agency. For example, these staff are likely to face many urgent and

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<sup>50</sup> For example, a set may comprise two taxi fares of the same amount and date, or five conference bookings of the same amount and date.

important priorities, and their seniority makes obtaining independent review of their credit card expenditure more challenging. The ANAO reviewed credit card use and acquittals for four members of the executive management group at each of Austrade and PM&C.<sup>51</sup> The sample reviewed included 25 monthly statements in late 2011–12, comprising 388 transactions valued at approximately \$88 000. By value, 99 per cent of the transactions were acquitted on a timely basis, with supporting documentation. The nature and value of the transactions was consistent with the duties of the officers involved.

**3.29** As mentioned at paragraph 3.13, a useful principle is that credit card transactions be reviewed by a person who is familiar with the relevant guidelines for credit card use, who has knowledge of the activities of the cardholder, and who is in a position to make an independent judgement on the appropriateness of the use of the credit card. In most cases these requirements are met by having credit card use reviewed by the cardholder’s direct manager. For cardholders in the executive management group this is less easy to arrange, as these officials often operate as a collegiate group, and the Chief Executive—by definition—does not have a manager. As an added precaution, the ANAO suggests it is prudent for agencies to consider, and to document in their guidance material, the specific arrangements for review of senior executive credit card use to provide for a suitably independent and knowledgeable perspective.<sup>52</sup>

## Cash withdrawals

**3.30** The withdrawal of cash using credit cards is of particular interest because the use of cash is generally more difficult to verify, and because cash can more readily be diverted to inappropriate use. The ability to withdraw cash may be a particular temptation to staff in financial difficulties.

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<sup>51</sup> No member of Geoscience’s executive management group used an agency credit card in 2011–12.

<sup>52</sup> For example, PM&C’s guidance provides details on the officers that review credit card use by senior executives. Credit card use by the Secretary is to be reviewed by the Chief Financial Officer, and alternative arrangements are specified if the primary reviewer is not available.

### Case study: Former public servant prosecuted

In September 2012 a former Commonwealth public servant was sentenced to six months weekend jail and ordered to repay money stolen by making unauthorised cash withdrawals with his work credit card. He reportedly spent the money on drinking and gambling sprees. He said he knew it was just a matter of time before his employers found out.<sup>53</sup>

Source: *Canberra Times*, 10 September 2012, p. 3.

**3.31** The ANAO reviewed the controls applied by the three agencies for cash withdrawals using credit cards. PM&C and Geoscience do not allow the use of cash withdrawals and ANAO testing of credit card data confirmed no cash withdrawals occurred for these agencies during 2011–12.

**3.32** Austrade permits the use of cash withdrawals within specified guidelines. Given the nature of the work of Austrade staff, allowing staff to withdraw cash using credit cards is reasonable in the circumstances. However, Austrade cardholders using high levels of cash may work in overseas posts under limited supervision, which makes oversight and review of the use of cash more difficult.

**3.33** In relation to cash withdrawals using a credit card, Austrade’s policies and guidelines provide that:

- cash withdrawal is generally allowed for payment of travel expenses;
- with authorisation, cash withdrawals can be used for other Austrade official purposes;
- cash withdrawals should not exceed specified limits;
- arrangements with the credit card provider limit the monthly amount of cash that can be withdrawn<sup>54</sup>; and
- as part of broader acquittal arrangements, cardholders need to itemise the individual expenditures made with the cash (with some exceptions, for example, Austrade policy does not require travellers to obtain and retain a receipt for official travel-related expenditure for minor amounts—up to \$20 per day).

<sup>53</sup> The department involved, like those reviewed in this audit, had a range of controls in place to deter and detect inappropriate use of its credit cards. The department advised that under its policies, should intentional inappropriate use of a credit card be detected by a supervisor, the matter is to be referred for Code of Conduct action. Where criminal offences are also suspected, the matter is also referred for internal criminal investigation and subsequent referral to the Commonwealth Director of Public Prosecutions.

<sup>54</sup> For example, a card with a \$10 000 credit limit would be limited to a maximum withdrawal of \$2000 cash per month from automated teller machines. These limits can be increased on a case-by-case basis if there is a business need.



**3.34** During 2011–12:

- Austrade cardholders withdrew \$0.9 million in cash;
- cash was withdrawn from 680 of the 1011 cards used—generally for incidental travel costs; and
- nine cardholders withdrew more than \$10 000 during the year—the largest three amounts were approximately \$60 000, \$23 000 and \$21 000.

**3.35** The ANAO reviewed cash transactions reported in June 2012 for six cardholders who had withdrawn large amounts of cash during 2011–12. There were 48 withdrawals, with a total value of approximately \$15 000. In accordance with Austrade requirements, line item descriptions were available for all the 146 individual purchases made with the cash withdrawn. The descriptions indicated that the majority of the purchases related to meals, travel and accommodation, and goods and services required to run an overseas office.

**3.36** For 142 of the 146 purchases, the cardholder indicated on their acquittal statement that receipts had been obtained. Austrade was able to provide receipts for the higher value purchases. However, in some cases there were shortcomings in the quality of receipts (for example, illegible and/or faded). In addition, it was at times difficult to reconcile receipts against cash withdrawals, in part due to lack of clarity in the descriptions provided for expenditure by the cardholder.

**3.37** Austrade advised that, as with all credit card transactions, cash withdrawals are reviewed by a manager, and the reviewer is aware of reasonable expenditure for the particular post. The absence, or illegibility, of receipts highlights the importance of the reviewers of such expenditure having a reliable understanding of the expected level of expenditure for these cardholders. For one of the sampled cardholders, the reviewer had in fact raised a number of queries, which is an indicator of effective review. Austrade also applies additional controls through the setting of budgets for posts, and periodic internal audits of credit card transactions.

**3.38** The ANAO also reviewed the full year of cash withdrawals for the cardholder who had withdrawn more than \$60 000 in 2011–12. This was an unusual case, where local circumstances in the country involved meant that many operating costs for the post were paid in cash. The expenditure was itemised by the cardholder, reviewed by the relevant manager and was

considered by Austrade to be an appropriate level of expenditure in the circumstances. This particular post has since closed.

**3.39** On the basis of the sample examined, the withdrawal of cash reflected circumstances in specific countries, and supporting documentation and processes provided reasonable oversight of the transactions. Nonetheless, given the risks and sensitivities associated with the use of cash, it is important that Austrade maintain a focus on the application of its policies and guidelines for the withdrawal and use of cash to be confident that such transactions are reasonable in the circumstances.

## Corporate reviews of the use of credit cards

**3.40** A useful approach to strengthen controls over credit cards is to supplement day-to-day checking of transactions with periodic monitoring and review activities. Potentially useful monitoring and review activities, some of which have been observed in the three agencies, are listed in Table 3.2.

**Table 3.2**

### Examples of periodic monitoring and review of credit cards

Indicative frequency	Nature of monitoring and review
Ongoing	<ul style="list-style-type: none"> <li>• Recording of unusual events (e.g. record instances of reported personal use of credit cards so any recurrence is noted; record merchants involved in disputed transactions).</li> <li>• Assess and act on overdue acquittals by cardholders (e.g. one agency (not included in the audit) reduces the credit limit for credit cards with overdue acquittals to \$1, effectively suspending the credit card).</li> </ul>
6–12 months	<ul style="list-style-type: none"> <li>• Review credit card use against credit limits for possible adjustments.</li> <li>• Review credit cards not used for a significant period to establish if they are still required.</li> <li>• Sample testing of transactions with higher risk of misuse (e.g. check whether transactions over \$20 000 properly established value for money and compliance with procurement guidelines; check whether transactions with duplicated details are merchant error).</li> <li>• Statistical analysis of utilisation patterns (e.g. identify opportunities for centralised procurement of some types of goods, assess average and unusual costs for accommodation by city).</li> <li>• Reconcile the agency’s credit card register with the credit card provider.</li> </ul>

Indicative frequency	Nature of monitoring and review
1–3 years	<ul style="list-style-type: none"> <li>• Internal audit review covering credit cards as appropriate (e.g. processes for issue and return; whether acquittal and review procedures are being followed).</li> <li>• Review expenditure in areas where judgement plays an important part (e.g. travel, accommodation and meals) in order to assess whether the expenditure is remaining within public expectations and practice in comparable agencies (see paragraph 3.12).</li> </ul>

Source: ANAO.

Note: The indicative frequency and example actions should be taken as a broad guide only, and should be considered in the light of individual agencies' circumstances.

**3.41** The three agencies all had policies providing for some form of periodic review of credit card use. For example:

- Austrade has a policy of regular audits of its overseas posts, including checking of credit card expenditure and retention of records;
- Geoscience has a policy for the credit card manager to undertake periodic random checks of credit card expenditure; and
- PM&C has a policy for the credit card administrator to contact cardholders if a credit card is not used for six months to ascertain whether it is still needed.

**3.42** Different types of review can have very different costs and timeframes. For example, an internal audit could take weeks to complete while a review of credit cards with overdue acquittals could take half a day each month. Accordingly, there is likely to be value in agencies adopting an appropriate range of more frequent, lower cost, risk-based reviews in addition to less frequent major reviews such as an internal audit.<sup>55</sup> Such reviews could be targeted at unusual transactions (by nature or value), potential duplicates, or expenditure where determining appropriateness may be more subject to judgement.

<sup>55</sup> Internal audits remain an important element of periodic review, particularly because they are conducted independently of the agency's credit card administrator.

## Certificate of Compliance reporting

**3.43** Each year, Chief Executives of FMA Act agencies are required to provide a Certificate of Compliance, reporting on compliance with the Australian Government's financial management framework. This report should include any identified misuse of credit cards.<sup>56</sup> This audit identified five instances of personal use of credit cards in 2011–12, which should have been reported in the relevant agencies' Certificate of Compliance. Specifically, the ANAO's sample identified:

- one instance of personal use which was not reported in Austrade's Certificate of Compliance. Austrade reported other instances of misuse of credit cards which were not part of the ANAO's sample; and
- four instances of personal use of credit cards which were not reported in PM&C's Certificate of Compliance. PM&C also did not report any other instances of misuse which were not part of the ANAO's sample.

## Conclusion

**3.44** The audited agencies had generally sound policies and procedures for acquittal and review of individual purchases made using credit cards. These covered the responsibilities of cardholders and reviewers in endorsing valid transactions, and dealing with unrecognised or disputed transactions.

**3.45** The ANAO analysed<sup>57</sup> all credit card transactions in the three agencies in 2011–12. To help assess whether credit card acquittal procedures were complied with, the ANAO examined a random sample of 927 transactions and found in two agencies there was a generally satisfactory application of agency controls relating to the timeliness of acquittal. However, in PM&C nearly 30 per cent of transactions examined were not acquitted within the agency's required timeframe. About two-thirds of these transactions had evidence of acquittal—typically some 30–60 days after the due date. For the remaining third, documentation was not available to establish the fact or date of acquittal. In February 2013, PM&C reinforced its acquittal requirements through

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<sup>56</sup> In regard to misuse of credit cards, section 60 subsection 1 of the FMA Act specifies an official or Minister must not use a Commonwealth credit card, or a Commonwealth credit card number, to obtain cash, goods or services otherwise than for the Commonwealth. Subsection (1) does not apply to a particular use of a Commonwealth credit card or Commonwealth credit card number if: (a) the use is authorised by the regulations; and (b) the Commonwealth is reimbursed in accordance with the regulations.

<sup>57</sup> This included reviewing credit card data to determine total expenditure per agency and per cardholder, analysing merchants used, and types of expenditure.

reminders by the Chief Finance Officer to staff with outstanding acquittals; and this focus will need to be maintained to strengthen the application of these requirements in relation to credit card use.

**3.46** Appropriate documentation was available for all of Geoscience's transactions in the random sample. For Austrade<sup>58</sup> and PM&C, documentation was not available for around five per cent of the number of the transactions. These were mainly low value transactions. For the sample of transactions, ANAO analysis of the merchants used and available receipts showed that the goods and services purchased were reasonable in light of the agencies' business needs and credit card policies.

**3.47** In addition to examining a random sample of transactions, the ANAO examined 1503 transactions across the three agencies in several specific categories where the risks of misuse and/or less effective checking were potentially higher. These included transactions with unusually high expenditure for an item, unusual types of merchants, potentially duplicated charges, transactions by high spending cardholders, and transactions undertaken by members of the agencies' executive management groups. Almost all of these transactions were satisfactorily explained. The agencies had already properly identified a number of examples of misuse—such as fraudulent use of the credit card number by a third party, double processing of charges by merchants, and in one case potential abuse by a staff member. This identification of misuse by agencies is indicative of the effectiveness of their controls. However, in a small number of cases, mainly in PM&C, sufficient documentation was not available to confirm the legitimacy of some mainly low-value transactions.

**3.48** One of the agencies (Austrade) had determined there was a business need for cardholders to be able to withdraw cash, for example to pay for routine travel expenses, or to make payments in countries where some service providers may not accept payment by credit card. Cash withdrawals accounted for about ten percent of the value of credit card transactions in Austrade. Cash withdrawn in 2011–12 was approximately \$900 000, with a small number of individuals withdrawing more than \$20 000 during the year. The ANAO examined a sample of cash transactions and supporting documentation for Austrade cardholders who had withdrawn large amounts

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<sup>58</sup> Austrade policy does not require travellers to obtain and retain a receipt for official travel-related expenditure for minor amounts (up to \$20 per day).

of cash during 2011–12.<sup>59</sup> For these transactions, the withdrawal of cash reflected circumstances in specific countries, and supporting documentation and processes provided reasonable oversight of the transactions. Nonetheless, given the risks and sensitivities associated with the use of cash, it is important that Austrade maintain a focus on the application of its policies and guidelines for the withdrawal and use of cash to be confident that such transactions are reasonable in the circumstances.

**3.49** All of the audited agencies had policies providing for, and had undertaken in recent years, some form of periodic review. However, there is scope for agencies to examine the balance of review processes undertaken, particularly given their varying resource needs. There would be value in agencies adopting an appropriate range of more frequent, lower cost, targeted reviews, supported by more extensive reviews such as an internal audit. Such targeted reviews could examine unusual transactions (by nature or value), potential duplicates, or expenditure where determining appropriateness may be more subject to judgement.

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Ian McPhee  
Auditor-General

Canberra ACT  
16 May 2013

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<sup>59</sup> The ANAO examined in detail the transactions of a sample of six cardholders who withdrew between approximately \$8500 and \$60 000 during 2011–12.

# Appendices

# Appendix 1: Agencies' Responses



**Australian Government**  
**Austrade**

2 May 2013

Dr Andrew Pope  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Dr Pope,

## **Audit Report on the Control of Credit Card Use**

I refer to your letter of 2 April 2013, wherein you requested comments on the abovementioned report. The Austrade response to the proposed report is set out below.

### **1. Formal response to the proposed report**

Austrade acknowledges the observations of the ANAO and accepts the identification of areas for improvement, while noting that the audit found that the audited agencies had generally sound policies and procedures in place for the control and use of credit cards.

During the 2011-12 period under review, Austrade took measures to tighten controls around the personal use of credit cards and the timely acquittal of transactions/statements. Austrade notes that had these measures been in place for the full period of review, the findings for it would have been more favourable.

Austrade will soon be implementing a new expense management system, and will consider improvements to the credit card acquittal processes in that context.

### **2. Summary response for inclusion in the report summary**

Austrade acknowledges the observations of the ANAO and will continue to identify and implement areas for improvement in the context of an upcoming change to its expense management system.

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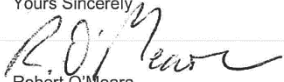


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Austrade thanks the ANAO for its professional conduct of the audit.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'R. O'Meara', written over a horizontal line.

Robert O'Meara  
Chief Financial Officer  
Austrade




**Australian Government**  
**Department of the Prime Minister and Cabinet**

**Dr Ian Watt AO**  
**Secretary**

Ref:EC13/187

Mr Ian McPhee PSM  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

  
Dear Mr McPhee

**Controls of Credit Card Use**

I am writing in response to Dr Pope's letter of 2 April 2013 seeking the Department of the Prime Minister and Cabinet's (PM&C) formal response to the proposed audit report on the *Control of Credit Card Use*.

PM&C's formal response is outlined in the following two paragraphs.

The Department of the Prime Minister and Cabinet welcomes this review of the controls over credit card use. The Department went through significant changes in 2011-12. These changes included Machinery of Government changes, an internal restructure and the insourcing of accounts processing function which includes credit card administration.

The ANAO audit provided timely assurance over this function following these significant changes. The Department will enhance its controls in the areas highlighted by the ANAO. The Department has already implemented some of the ANAO suggestions such as adding an explicit reference to reporting obligations on disputed or fraudulent transactions to the acknowledgement form signed by new cardholders.

Yours sincerely



I J Watt  
26 April 2013

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**Australian Government**  
**Geoscience Australia**

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ABN 80 091 799 039

22 April 2013

Dr Andrew Pope  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2610

Dear Dr Pope

**Proposed Audit Report on the Control of Credit Card Use**

Thank you for providing the proposed audit report on the control of credit card use for comment.

Geoscience Australia welcomes the ANAO's audit and the overall conclusion that GA is effectively managing credit card usage.

Geoscience Australia accepts the audit recommendations and thanks the ANAO for identifying areas where Geoscience Australia has opportunity to improve.

Geoscience Australia's detailed response to the audit is included in Attachment A.

Yours sincerely

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

Dr Chris Pigram  
Chief Executive Officer

22 APRIL 2013

**Geoscience Australia**

**Response to the Audit Report of the Control of Credit Cards**

Geoscience Australia agrees with the recommendations of the report and will develop strategies for:

- Continued vigilance around credit card controls; and
- Strengthening the policy and guidance materials around:
  - inadvertent private use;
  - additional approvals that are required for spending proposals that relate to allowances and benefits relating to the cardholder; and
  - the approach taken by the reviewers of credit card acquittals.

Geoscience Australia will also take the opportunity, with the introduction of credit cards under the whole of government travel arrangements, to undertake a full review of all policy and guidance material, and systems for credit card management in the agency.

## Appendix 2: ANAO Survey of Australian Government Agencies' Credit Card Use

The ANAO sent a survey to the Chief Financial Officers (CFOs) of 15 Australian Government agencies that were not included in the audit to provide contextual information about credit card use and controls. The survey was conducted between November and December 2012.

Eleven agencies responded to the survey. Combined, these agencies had over 55 000 staff, 9000 credit cards on issue, and spent in excess of \$77 million using credit cards during 2011–12. The information provided by the agencies is set out below. The information has not been subject to audit.

### *Use of credit cards*

Most of the 11 agencies indicated that they issued credit cards to between 10 and 40 per cent of their staff; on average, cards were issued to 16 per cent of staff. The average annual expenditure per card was typically between \$5000 and \$10 000 in the agencies.

	Lowest	Highest	Average (11 agencies)
Percentage of staff with cards	4%	74%	16%
Average annual expenditure per card	\$3334	\$20 824	\$8552

Source: ANAO analysis of CFO Survey Responses.

Eighty per cent of respondents identified travel as a reason for issuing a credit card. The next most frequently cited reason was to assist with the routine purchases of goods and services.

### *Receipt of transaction data*<sup>60</sup>

In all 11 agencies, credit card transaction data was received from the card provider digitally. In 65 per cent of cases, the data was transferred from the credit card provider directly to the agency's finance system. In 25 per cent of cases, the transaction data was transferred digitally by the credit card provider and then uploaded by the agency to its financial system. In one agency the credit card provider sent statements directly to the cardholders.

<sup>60</sup> Percentages are rounded to the nearest five per cent.

Seventy-five per cent of the agencies received transaction data from the credit card provider on a daily basis. The remaining agencies received transaction data monthly.

***Acquittal and supporting documentation***

In the majority of agencies, transaction data was provided to cardholders for acquittal on a daily basis. In the remaining agencies, this data was provided to cardholders for acquittal once a month. The majority of cardholders acquit their transactions electronically.

Seven agencies acquitted transactions on the basis of individual transactions. The remaining four agencies acquitted on the basis of a monthly statement. Details of the agencies’ acquittal timeframes are set out in the table below.

Timeframe for acquittal	Number of agencies in the survey	
	From date of transaction	From date statement received
1–10 days	Nil	2
11–31 days	5	2
32–60 days	2	Nil

Source: ANAO analysis of CFO Survey Responses.

In the majority of agencies, transaction receipts were retained by a central accounts/support unit rather than by individual cardholders.

***Independent review***

The means of independent review varied between agencies as indicated below.

Means of review	Number of agencies
Primarily electronic (review of expenditure in a finance system)	2
Primarily paper (review of paper statements)	4
Combination of both (electronic and paper)	5

Source: ANAO analysis of CFO Survey Responses.

The following agencies participated in the survey:

- Australian Agency for International Development;
- Australian Prudential Regulation Authority;
- Department of Agriculture, Fisheries and Forestry;
- Department of Broadband, Communications and the Digital Economy;
- Department of Families, Housing, Community Services and Indigenous Affairs;
- Department of Finance and Deregulation;
- Department of Foreign Affairs and Trade;
- Department of Human Services;
- Department of Industry, Innovation, Science, Research and Tertiary Education;
- Department of Regional Australia, Local Government, Arts and Sport;  
and
- Department of Sustainability, Environment, Water, Population and Communities.

## Appendix 3: Example Cardholder Agreement and Acknowledgement Form

Outlined below is an example of a cardholder agreement and acknowledgement form that includes the key elements the ANAO considers desirable to adequately inform cardholders of their responsibilities.

It is important that cardholder agreement and acknowledgement forms are plainly written to assist the cardholder understand their obligations, and allow for meaningful consent.<sup>61</sup>

Agencies may wish to consider whether there are elements of the example relevant to their circumstances, which could be adopted in their own agreement and acknowledgement forms.

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<sup>61</sup> For example, a form requiring acknowledgement that a cardholder has read the agency's CEIs may result in new cardholders simply signing the form even though they have not in fact read all the CEIs because they were voluminous. This could in turn make more difficult any disciplinary action which relied on an assumption that all cardholders were aware of a specific part of the CEIs.



### Example of cardholder acknowledgement form

#### Receipt, safe custody and return of credit card

I, XXX XXX, acknowledge receipt of credit card number: XXXX-XXXX-XXXX-XXXX. I am responsible for the safe custody of the card at all times, and for keeping confidential the card number, card verification code and PIN code.

I will follow the attached terms and conditions of the *[credit card provider]*.

If the card is lost or stolen, or I have reason to believe the card PIN has been compromised, I am to report this immediately to *[credit card provider contact details]* and as soon as practicable to the Credit Card Administrator.

I will return the corporate credit card to the Credit Card Administrator prior to leaving the agency, or when I no longer meet agency requirements for having a credit card. I will leave documentation of any transactions not yet acquitted with the relevant supervisor.

#### Responsibilities when using

The card is to be used only for official purchases *[potential agency specific addition: which may include incidental personal use, as described in Agency Chief Executive Instruction XX]*.

I am aware that use of the corporate credit card for obtaining cash, goods or services otherwise than for the Commonwealth is an offence under section 60 of the *Financial Management and Accountability Act 1997*, incurring a maximum penalty of imprisonment for 7 years

I am aware that the monthly credit limit on this corporate credit card is \$[XXX], and the transaction limit is \$[XXX].

I am the only person entitled to use the card, and am responsible for all purchases made with the card while it is issued to me. I understand that Commonwealth expenditure must be properly authorised, efficient, effective, economical and ethical, with appropriate documentation (refer to FMA Regulations 7 to 12). For expenditure I make with this credit card, I am aware that I either need to take these steps within my financial delegation, or be satisfied that the appropriate steps have been taken by a properly authorised person.

I am aware that formal procurement processes may need to be applied before entering into a financial commitment (for example, expenditure over \$XXX) and will follow the agency's procurement guidelines as required.

*[Add agency arrangements for: purchasing on the Internet, including limits or special conditions for the nature of goods and services being purchased; and cash advances using credit cards (for example, I will not use the corporate credit card to obtain cash advances unless specifically approved by the appropriate delegate).]*

I will retain tax invoices, receipts and /or other documentation in accordance with agency requirements to help verify details of my credit card use.

If I use the credit card contrary to requirements (inadvertently or otherwise) I will as soon as practical inform my manager and the credit card administrator, and repay the amount involved.

#### Acquittal

I will reconcile and approve (or reject) for payment my credit card transactions *[insert details of timing requirements]*

I understand that goods and services should be received prior to payment, except in special circumstances.

*[If relevant, mention the requirement to repay any incidental personal use.]*

For any unrecognised or disputed transactions, I will *[for example, raise with credit card provider, raise with credit card administrator; record against a nominated charge code]*

Signature & date for: Cardholder

Credit Card Administrator

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