



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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Cabinet Office

The Government Procurement Card

Key facts

£322m

was spent using
Government Procurement
Cards in 2010-11

1.75m

card transactions were
made during 2010-11

£184

was spent, on average,
per card transaction in
2010-11

- 74 per cent** of Government Procurement Card spending was within the Ministry of Defence
- 41 per cent** of card spending in 2010-11 was for travel and accommodation
- 23,998** cards are in use, as at 31 October 2011
- 0.75 per cent** of total procurement spending is through Government Procurement Cards
- 5** major card providers to central government

Summary

Background and scope

1 The Government Procurement Card ('the Card') was introduced in 1997 as a convenient and cost-effective way to make low-value purchases. The Card was made available to all public sector organisations, including central government departments, local authorities and NHS organisations. During 2010 and 2011, departments' use of the Government Procurement Card has come under increased public and political scrutiny, following press articles highlighting apparent misuse of the cards. Card misuse risks financial loss and reputational damage for departments.

2 All central government departments operate their own card programmes, setting policies and controls to ensure staff use cards appropriately. The Cabinet Office is responsible for procurement issues overall; part of this responsibility resides within the Government Procurement Service (formerly Buying Solutions). The Government Procurement Service manages the central framework contracts with card providers, and monitors and reports procurement spending. The Cabinet Office has also recently established a Government Procurement Card Steering Group of departmental representatives, to shape how the Card should be used. The Steering Group, jointly chaired by the Cabinet Office and the Ministry of Justice, will also be responsible for ensuring that departments implement a new cross-government policy on the use of the Card which was introduced by the Cabinet Office in November 2011.

3 There were 23,998 cards in central government, as at October 2011. There are different types of card available, and the definition of the Card has not always been consistent. There are other types of payment cards such as travel cards, prepayment cards and declining balance cards. However, arrangements differ to those for the Government Procurement Card, and we have not examined these cards in this review. In this report, the Card refers to two types of card:

- **Purchasing card:** Physical card issued to an individual or team.
- **Lodge card:** Virtual card 'lodged' with one supplier for a particular category of spending. Only purchases of goods or services from that supplier can be charged to the lodge card.

4 Our objective was to carry out a focused assessment of the controls for Government Procurement Cards in central government. This report does not provide an assessment of the value for money of procurement spending using the Government Procurement Card.

5 We reviewed how Government Procurement Cards are used in central government, by considering:

- how and where the Card is used;
- how departments control spending; and
- how controls could be improved, including considering the role of the Cabinet Office.

6 We reviewed departments' policies for using the Card (design of controls), and tested how these policies were implemented (operation of controls). We also reviewed the departments' own internal audit reports looking at both control design and implementation, examined the context of how the Cards are used, and the central role of the Cabinet Office.

7 Although we did not set out to assess the risks and benefits of the Government Procurement Card, in the course of our review we encountered wider value-for-money issues around the use of the Card in government. These included: how departments decide to use this procurement route; whether controls are based on assessing risks, costs and benefits; and the consistency of controls across government.

8 The review covers central government, including the 17 departments and their executive agencies. Government Procurement Cards are used elsewhere in the public sector. While not covered by this study, some recommendations made in this report may be applicable in these organisations.

Key findings

How the Government Procurement Card is used

9 Central government spent £322 million using Government Procurement Cards in 2010-11, and £149 million in the first half of 2011-12. There were 1.75 million transactions in 2010-11, and 818,781 transactions in the first half of 2011-12. The majority of transactions are low-value purchases. The average value of a transaction in 2010-11 was £184.

10 Departments' use of Government Procurement Cards varies, both in the amount spent and in the type of goods and services purchased. The Ministry of Defence accounted for around 74 per cent (£237 million) of central government's total spending using the Card in 2010-11, compared with HM Revenue & Customs which spent £205,000. This may be a reflection of varying business need or business models. 'Travel' and 'Hotels and Accommodation' are among the most common categories for which the Card is used across government, comprising 41 per cent of total spending. However, some departments do not allow the Card to be used for these categories.

Assessing controls in departments

11 Departments are responsible for designing and implementing a set of controls for use of the Card. These are generally designed satisfactorily. However, approaches are inconsistent and this is not entirely justified by business need.

Some controls vary legitimately, reflecting differing business needs or business models operating in departments. For example, blocking of certain categories may be entirely appropriate for one organisation while not suiting the operating model of another. However, we would expect other controls, such as the rigour of the monthly review process, to be consistent across all departments.

12 Generally, controls are operating as set out in departmental policies but there are some notable weaknesses. We found different controls in each of the five departments we examined. There were instances of departments not complying with controls, such as missing receipts or invoices to support transactions, or no evidence that the cardholder was authorised to make purchases. In some departments we identified more significant issues, including a large backlog of unapproved transactions, and limited approval and reviewing procedures.

13 Some departments have inadequate management information and cannot monitor Government Procurement Card use effectively. This presents a further weakness in departmental controls. Without accurate data, departments cannot monitor adherence to policies, assess exposure to risk, or review whether controls meet business need.

Improving controls across government

14 Central data is incomplete and inconsistent, and does not provide an accurate picture of Government Procurement Card spending across government.

The Cabinet Office oversees the Card centrally but it does not have an accurate picture of activity to support this. Data collected centrally cannot be mapped to the data collected by individual departments. The Cabinet Office is undertaking an exercise to address these inconsistencies.

15 Historically, there has been a lack of central oversight and control of the Card, which has increased risks to value for money. However, the centre of government has made recent moves to strengthen controls, including the introduction of a cross-government policy on use of the Card. A cross-government steering group has been established which designed and distributed the central policy. These are important first steps towards greater standardisation of controls. The new policy highlights gaps in departmental policies. While some elements were already widely used, such as clearly linking misuse of the Card to disciplinary procedures, other areas, such as management information, were not specified in most departmental policies.

16 While departments acknowledge the risks and potential advantages of the Card, there is no up-to-date value-for-money case to substantiate this.

Departments are not given clear guidance on when the Card may (or may not) be an appropriate way to procure goods or services. The finding from a 1998 KPMG report¹ that each Government Procurement Card transaction costs an average of £28 less than a non-card transaction was based on procurement processes that are no longer used. This outdated figure can no longer serve as the basis of a business case for using the Card. Our preliminary work in the Ministry of Justice indicates that the cost of procurement has decreased substantially, due to advances such as electronic procurement and invoicing methods. In the specific transactions we examined, we estimated the difference in cost to be around £5 or 35 per cent less for a Card transaction compared with a non-card catalogue transaction. The Ministry of Justice also confirmed wider benefits to the Card, such as prompt payment to suppliers, reduced supplier set-up and maintenance costs, and rebates from card providers.

Conclusion

17 Used appropriately, the Government Procurement Card can be a cost-effective way for central government to procure goods and services, with benefits in terms of convenience and reduced administration. Departmental controls in the five departments we examined were generally designed satisfactorily and operating as intended. However, the Card also comes with a degree of reputational risk which is heightened by a lack of clear central guidance on when it is the most appropriate procurement route. This has contributed to inconsistent controls across central government, and considerable variation in how departments use the Card. The business case for using the Card is based on outdated information. The centre of government is making progress towards greater consistency and centralisation, but the current system still contains risks to value for money.

Recommendations

18 We make the following recommendations to improve value for money in using Government Procurement Cards:

- a** **There is a lack of comprehensive management information on the use of the Card.** As part of its current exercise, the Government Procurement Service (within the Cabinet Office) should work with card providers and departments to develop a consistent way to gather data, and report on spending. Improved management information would help central government and departments to understand how the Card is used and the risks involved, and to design appropriate controls with clear objectives.

¹ KPMG's findings are referenced in an National Audit Office report: Comptroller and Auditor General, *Improving procurement*, Session 2003-04, HC 361-I, March 2004.

- b There is considerable inconsistency in the controls applied to the Card's use.** Some departments are already compliant with the cross-government policy. However, where this is not the case, they should adopt this as a minimum, and make sure that their associated bodies adopt these policy standards. Departments should reflect these clearly in their policy documents, as well as ensuring that the specified controls are operating effectively. They should assess the benefits, costs and risks of using the Card, and use this to design controls appropriate to their business. This should consider the points below:
- Lower-risk lodge cards (a form of Government Procurement Card) may be more appropriate for certain categories of spending.
 - The case for enhanced controls, such as requiring departments to:
 - block all merchant category groups (categories of spending) for individual cards unless specifically required to meet a defined business need;
 - increase the use of (near) real-time online monitoring to detect suspicious or fraudulent transactions;
 - withdraw cards for repeated low-level breaches;
 - approve 100 per cent of transactions by someone with designated authority; and
 - regularly assess the business need for individual cards, promptly withdrawing them if such need no longer exists.
 - The case for more stringent deterrents, such as publishing all transactions (not just those of £500 and above, as at present) and publishing instances of detected fraud.
- c There are weaknesses in departmental controls, particularly in approving and reviewing transactions.** Departments should review how controls operate and act upon internal audit recommendations to address the weaknesses identified. Departments must make sure that they have adequate management information to monitor compliance with policies.
- d It is not clear when the Card is the most value-for-money procurement option.** The Cabinet Office should revisit the value-for-money business case for the Card and clarify how it should, and should not, be used. Although departments may be flexible, to suit individual business needs, there should be central guidance on which procurement tools are appropriate for different types of purchase.