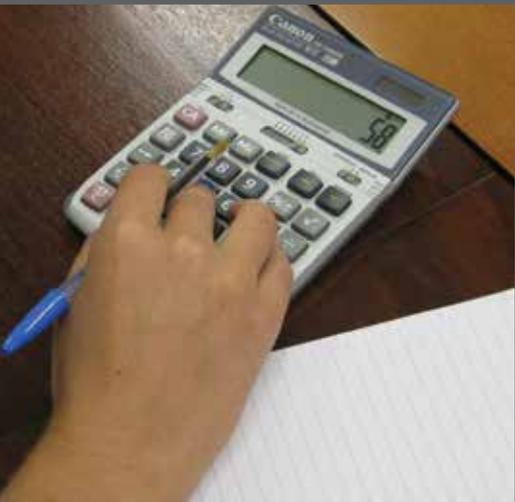


Western Australian Auditor General's Report



Across Government Benchmarking Audits

- Controls Over Purchasing Cards
- Debtor Management
- Timely Payment of Invoices



Report 5: April 2014



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Office of the Auditor General
Western Australia

7th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:

Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500

F: 08 6557 7600

E: info@audit.wa.gov.au

W: www.audit.wa.gov.au

National Relay Service TTY: 13 36 77
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- **Controls Over Purchasing Cards**
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**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

ACROSS GOVERNMENT BENCHMARKING AUDITS

This report under the provision of section 25 of the *Auditor General Act 2006* (AG Act) details the findings of three recently completed across government benchmarking audits of:

- Controls Over Purchasing Cards
- Debtor Management
- Timely Payment of Invoices.

Across government benchmarking audits build on the annual financial audits undertaken at all agencies. They aim to assess how well a sample of agencies perform relative to each other on common business practices.

The information provided from these audits will, I am sure, assist Parliament to evaluate agencies' performance in managing their financial administration and operations.

A handwritten signature in black ink, appearing to read 'Glen Clarke'.

GLEN CLARKE
ACTING AUDITOR GENERAL
1 April 2014

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Auditor General's Overview

This report contains the results of three across government benchmarking audits, each of which involved ten agencies. The three audits were:

- Controls Over Purchasing Cards
- Debtor Management
- Timely Payment of Invoices.

These audits build on the audit activity undertaken during our annual financial audits and are aimed at providing Parliament and agency management with an indication of how well they are performing relative to each other in regard to common business practices. The audits are also intended to be repeated periodically so that Parliament has some indication of whether performance in the sector is improving over time.

Using government purchasing cards can reduce agencies' costs and streamline business processes. However, several frauds in recent times have highlighted the potential for improper or unauthorised expenditure. The audit of Controls Over Purchasing Cards enabled us to compare the results to those of a similar audit we conducted in 2009. Overall, no significant improvement in controls was evident since our 2009 audit, with six of the ten agencies needing to improve their policies and/or practices. Importantly, however, we found no instances of cards being used inappropriately. In this audit we also specifically sampled the expenditure of the CEO at each of the agencies.

The audit of how well agencies are managing their debtors was significant given that this is a fundamental business practice and important to the 'bottom line' result. The audit's focus was how well debtor balances are monitored and followed up and the suitability of the process for writing off amounts that are deemed irrecoverable. The audit found that agencies were generally managing their debtors well.

Each year agencies spend hundreds of millions of dollars purchasing goods and services, often from relatively small suppliers whose business depends on being paid in a timely manner. The audit of Timely Payment of Invoices found that ten per cent of the invoices we reviewed were paid later than the required 30 days. Nevertheless, this was an improvement on the result from our 2007 audit when 14 per cent of payments were late.

Overall, these audits showed mixed results, with improvement in some areas but with other areas requiring greater attention from management. I trust that all agencies will review the results and recommendations of these audits and take action to ensure that they comply with accepted good practice.

Controls Over Purchasing Cards

Background and What We Did

Western Australian government purchasing cards are an important part of the public sector purchasing system. Purchasing cards offer significant benefits to departments and agencies, suppliers and the environment. They can reduce costs and streamline business processes associated with authorising, tracking, purchasing, payment and reconciling agency purchases. Additionally they can significantly reduce the use of paper and more cumbersome transaction processes.

However, if not managed correctly, potential does exist for improper or unauthorised expenditure, as demonstrated by several frauds in recent times. As with all expenditure processes, management need to ensure appropriate controls are in place and be continually vigilant against misuse.

The State Government's procurement strategy has aimed to increase the proportion of government purchases made by purchasing cards. In 2012-13, agencies used 23 819 cards to purchase \$427 million in goods and services, compared to 14 500 cards and \$237 million in 2008-09 when we last audited this area.

The issue and use of Western Australian Government purchasing cards is governed by the *Financial Management Act 2006* (FMA) and Treasurer's Instructions (TIs) particularly TI 321. Western Australian Government Purchasing Card (Corporate Credit Card) Guidelines (July 2012) provide further information to agencies on purchasing card usage and management.

We last audited government purchasing cards in 2009 when we reported on practices at 25 agencies. In this audit we assessed the practices at ten agencies, including one agency from the 2009 audit. The audit covered a five to seven month period at each agency.

Our objective was to determine if agencies have effective controls over expenditure incurred using corporate purchasing cards. We also reviewed the expenses incurred by the Chief Executive Officers of the agencies to assess whether there was adequate independent review of their purchasing card use. Our lines of inquiry were:

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

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

Conclusion

Overall, no significant improvement in the management of purchasing cards was evident since our similar audit in 2009. Four out of ten agencies were rated as 'Good', but the other six agencies need to improve their policies and/or practices for managing purchasing cards. We found no instances of cards being used inappropriately.

What Did We Find?

Of the ten agencies audited, the Fremantle Port Authority, Parliamentary Commissioner for Administrative Investigations (Ombudsman), WorkCover WA and Zoological Parks Authority were rated as 'Good' against all three criteria.

The following table is a summary of our findings. Agencies were rated on a three point scale of 'Poor', 'Fair' or 'Good'.

Agency	Policies and Administrative Systems	Use and Management of Cards	Review of Use of Purchasing Cards
Department of Culture and the Arts	Fair	Fair	Poor
Department of Treasury	Fair	Poor	Fair
Fremantle Port Authority	Good	Good	Good
Metropolitan Redevelopment Authority	Fair	Good	Poor **
Office of the Information Commissioner	Poor *	Poor **	Poor
Parliamentary Commissioner for Administrative Investigations	Good	Good	Good
Western Australian Electoral Commission	Poor *	Fair	Poor
Western Australian Land Authority (Landcorp)	Fair	Fair	Fair
WorkCover Western Australia Authority	Good	Good	Good
Zoological Parks Authority	Good	Good	Good

Table 1: Agency ratings against our criteria

* Suitable policies were subsequently developed.

** Refer to "Agency Responses" on page 8.

Policies and Administrative Systems

Having comprehensive policies and procedures is important to achieving consistent, efficient practice and to eliminating or at least reducing errors and costly rework. In the case of purchasing cards, they enable staff to understand the circumstances that purchasing cards can be used and their responsibilities as the holders of a card. They also make it easier to identify inappropriate use, including fraud.

Only one of the ten agencies had comprehensive policies and procedures for managing purchasing cards, although three other agencies required only minor improvements. Two agencies had poor or non-existent policies at the time of our audit although they have since developed a comprehensive policy. The types of policy and procedural gaps we identified were:

- No clear responsibility for approving Chief Executive Officer's purchasing card expenses at six agencies.
- Policies at two agencies did not include clear guidelines for changes to card purchasing limits.
- One agency's policy did not include guidelines on restrictions relating to the use of purchasing cards for cash withdrawals/advances.
- Policies at four agencies lacked guidelines relating to card cancellation and management of cards when cardholders are on extended leave (we regarded four weeks as extended leave if not specified in the policy); and at one agency, the policy did not refer to the procedures for issuing purchasing cards.

Use and Management of Cards

We audited 672 transactions (including 28 entertainment transactions) totalling \$730 000 or nine per cent of total purchasing card expenditure at the ten agencies. Only a very small number of the transactions lacked sufficient supporting documents and all were for business purposes.

Seven agencies had control weaknesses relating to the use and management of purchasing cards. Inadequate controls could potentially result in unauthorised purchases being made, inadequate/delayed follow up of supporting documents, untimely acquittal and certification of expenses, loss/misuse of purchasing cards and an inadequate audit trail of transactions and approvals. Issues identified included:

- No detailed review of a senior officer's (CFO) purchasing card transactions at one agency (27 of 81 transactions tested). We confirmed that all transactions tested were for business purposes. This senior officer incurred 46 per cent of the total purchasing card expenses at the agency during the period tested.
- No supporting documents for some purchasing card transactions at two agencies (five of 178 transactions tested, or three per cent).
- Delays in cancellation of cards at two agencies (six of ten cards tested). If cards are not cancelled when required, they may be used by other non-authorised staff.
- Delay in certification of purchasing card statements at two agencies (26 of 180 transactions, or 14 per cent). These delays can make it difficult to identify inappropriate payments.
- Cardholders at two agencies did not sign their monthly purchasing card statements to certify that the purchases were for business purposes only (74 of 218 transactions, or 34 per cent).
- The register of cardholders at one agency lacked some important information necessary for effective management (last four card number digits and card expiry date).
- Not all officers responsible for certifying cardholders' transactions had been formally appointed to do so at one agency (three of six transactions).
- At one agency, there was no evidence of prior approval of hospitality (seven of nine transactions) and travel (one of two transactions) expenses as required per the agency policy.

Other issues identified at one agency included no evidence of approval of changes to cardholder's credit limit (one of two cardholders tested) and card cancellation (two of five cards tested), cardholders exceeding the approved transaction limit (two of 108 cardholders tested), monthly purchasing card statements not certified by the cardholders' line managers (30 of 108 transactions tested, or 28 per cent) and no monthly review/monitoring of outstanding transactions to identify long outstanding unacquitted transactions.

Review of Use of Purchasing Cards

Four agencies did not perform any formal periodic review of purchasing card expenditure. Reviews provide management with assurance on a number matters including:

- the appropriateness of the credit limits on each cardholder's card
- the extent of card usage by individuals and their continuing need for a card
- any non-compliance with the agency's purchasing card policies and procedures.

Recommendations

All agencies should ensure that:

- Purchasing card policies clearly specify requirements for all purchasing card processes, including acceptable use, timely cancellation of cards, changes to card credit limits, procedures when cardholders are on extended leave and the approval responsibility for the Chief Executive Officers' purchasing card expenses.
- Records of all purchasing card transactions and their approvals are maintained.
- Acquittal/certification of purchasing card transactions and cancellation of cards are performed in a timely manner to avoid loss and/or misuse of cards. In addition there should be periodic review or monitoring of outstanding transactions to identify and follow up on long outstanding unacquitted transactions.
- A formal review of purchasing card expenditure is periodically performed to identify dormant and low usage cards and to confirm that card usage conforms to agency policy. The results of these reviews should be documented and retained.

Agency Responses

Agencies in our sample generally accepted the recommendations and confirmed that they will improve their policies and/or practices for managing purchasing cards.

Department of Treasury

Department of Treasury advised that it has recently revised its purchasing cards policy to address the identified shortcomings and will be reinforcing cardholders' responsibilities.

Metropolitan Redevelopment Authority

Metropolitan Redevelopment Authority advised that they have taken action to address the issues raised by the audit. Further, they advised that their low number of cards enables effective monitoring on an ongoing basis.

Office of the Information Commissioner

The Office of the Information Commissioner advised that all purchasing card statements are subject to a monthly verification by the Information Commissioner. However, it also advised that it will immediately implement all four recommendations and that since September 2013 it has published full details of all purchasing card transactions by all cardholders on its website.

Western Australian Land Authority

Western Australian Land Authority (Landcorp) advised that they have updated their purchasing card policy and procedures, allocated a dedicated resource to the processing of claims, and implemented systematic reporting to management.

Debtor Management

Across Government Benchmarking Audit

Background and What We Did

The Department of Treasury's most recent Annual Report on State Finances reported that debtors to the government owed \$4.59 billion at 30 June 2013, of which \$179 million had been owed for more than a year.

Debtor management involves the systematic invoicing of debtors, receipting of payments, monitoring and following up outstanding amounts and, where necessary, identifying and writing off amounts deemed irrecoverable.

In this audit our objective was to determine if agencies were properly managing their debtors. The audit sought answers against three lines of enquiry:

- Have agencies documented suitable policies and procedures for establishing debtor accounts and effectively managing debtor balances?
- Are debtor balances systematically monitored and outstanding debtors followed up adequately?
- Is the write-off of debtors appropriately approved? For example, reasons are evident and approval is given by authorised persons.

Ten agencies with debtors totalling \$130.5 million at 30 June 2013 were audited with the nature and amount of debts varying considerably across the ten agencies. For instance:

- the Housing Authority had debtors totalling \$91.6 million; of which \$31 million related to tenants' rent, \$18 million to land sales and \$10.4 million to bond assistance
- the Police Service had \$5.9 million of debtors, mainly related to impounded vehicles
- debts owing between Western Australian government agencies totalled \$11.7 million of which the Department of Education was owed \$4.3 million from various agencies
- \$2 million was owed by staff across the ten agencies for salary overpayments
- other debtors related to rent, international student fees (Department of Training and Workforce Development), Commonwealth Government agencies, venue hire (Western Australian Sports Centre Trust – VenuesWest) and land title search fees (Landgate).

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

Conclusion

The agencies were generally managing their debtors well, with five of the ten agencies rated as 'Good' against all three lines of enquiry and only a few poor ratings at the other agencies. The write-off of debtors was effectively managed with all agencies rated as 'Good' against this line of enquiry.

What Did We Find?

The Department of Education, Department of Planning, the Western Australian Planning Commission, Racing and Wagering Western Australia and VenuesWest were rated as 'Good' against all three criteria. All the other agencies had some areas where improvements could be made.

The following table is a summary of our findings. Agencies were rated on a three point scale of 'Poor', 'Fair' or 'Good'.

Agency	Policies and Procedures	Monitoring and Follow Up	Write-Offs
Department of Education (excluding schools)	Good	Good	Good
Department of Fisheries	Fair	Poor	Good
Department of Planning	Good	Good	Good
Department of Training and Workforce Development	Poor	Poor	Good
Housing Authority	Good	Fair	Good
Police Service	Fair	Fair	Good
Racing and Wagering Western Australia	Good	Good	Good
Western Australian Land Information Authority (Landgate)	Fair	Fair	Good
Western Australian Planning Commission	Good	Good	Good
Western Australian Sports Centre Trust (VenuesWest)	Good	Good	Good

Table 1: Agency ratings against our criteria

Policies and Procedures

Comprehensive debtor management policies and procedures help ensure consistent and efficient practice. This includes reducing the likelihood that high risk customers will be given debtor facilities, or that staff will make decisions that result in tardy recovery of debts or inappropriate write-off of debts. They also help minimise the risk of bad debts and damage to cash flow.

Six of the ten agencies had good policies and procedures. At the other agencies we noted:

- Two agencies lacked guidance within their policies and procedures about the timing for referring debts to a debt collector.
- One agency's policies and procedures were not accessible to all staff and lacked information on conditions under which a debt would be regarded as irrecoverable.

Monitoring and Follow Up

Five agencies were rated as 'Good' for monitoring and following up their debts. Good monitoring and follow up will normally involve use of aged debtor reports, regular reminders, stopping of credit facilities for poor debtors and clear roles and responsibilities for identifying and taking action to recover moneys from slow paying debtors.

Findings included:

- The Department of Training and Workforce Development (DTWD) had significant debtors dating back several years. The majority of amounts related to international student debtors for the period 2004 to 2010 and some were raised by the former Department of Education and Training and taken over by DTWD upon its establishment in October 2009. No evidence of follow up was available. If debts are not followed up in a timely manner, they are less likely to be recovered. Following our audit the agency raised a doubtful debts provision for \$878 000. Recent debtor follow-up has improved, with only 1.97 per cent of the 2012-13 international student revenue uncollected at 30 June 2013. By 31 December 2013 this had reduced to 0.16 per cent.

- The Police Service did not refer impounded vehicle debtors to a collection agent for a period of ten months during 2013, thereby delaying recovery action. We were advised this was a result of a changeover of debt collection agents.
- Three agencies did not follow up various debtors in a timely manner in accordance with their policies. One of these agencies continued to allow credit to a customer who had not settled four previous invoices that were long overdue. This agency had no credit policy or controls to prevent this from occurring. Another agency initiated recovery action six months past the due date for several debtors.
- All ten agencies used in-house debt collection, with seven also regularly using the services of a debt collector.
- None of the agencies in our sample were periodically assessing the costs and benefits of using a debt collector.

Write-Offs

Writing off debts should be a last resort and only taken if all reasonable actions have been taken to recover the debt and recovery is considered improbable or uneconomical. The seriousness attached to write-offs in government is reflected in section 48 of the *Financial Administration Act 2006*, Treasurer's Instruction 807 and related Regulations. These prescribe levels of authority for write-offs, being:

Amount Being Written Off	Authority to Write-Off
Up to \$100 000	The Accountable Authority
Up to \$250 000	The responsible Minister
Over \$250 000	The responsible Minister with the approval of the Governor

Table 2: Write-off limit authority levels

We found that a total of \$12 million was written off during the 2012-13 financial year by the ten sampled agencies. All ten agencies were rated as 'Good' against this line of enquiry.

While all agencies were rated as 'Good', we did note an instance where an interagency debt was extinguished. Such transactions are not unusual, although sometimes they only occur after protracted negotiations between agencies.

Treasurer's Instruction 807 does not specify the circumstances for allowing the forgiving of a debt between agencies or the authority levels for approving the extinguishment of such debts. It only notes that the practice has been for the matter to be resolved between the relevant Ministers concerned and for the accounts of the agencies to be adjusted accordingly. Although the write-off of an interagency debt does not result in the loss of revenue to the State, it can impact on transparency and accountability, particularly if the debtor agency had received parliamentary funding in relation to the debt.

Recommendations

All agencies should ensure that:

- detailed policies and procedures are available to all staff to follow in managing debtors
- they monitor their debtors closely, take appropriate follow-up action and where collectability is uncertain, recognise this in a timely manner by raising a provision for doubtful debts
- they periodically assess the costs and benefits of using debt collectors.

Agency Responses

Agencies in our sample generally accepted the recommendations and advised they will improve their policies and procedures to ensure effective management of debtors.

Timely Payment of Invoices

Across Government Benchmarking Audit

Background and What We Did

Each year, Western Australian government agencies spend hundreds of millions of dollars purchasing goods and services – expenditure which is vital to the local economy and to the creation of new jobs and opportunities for Western Australians.

Government agencies have a responsibility to behave as good corporate citizens by paying for these goods and services in a timely manner. To this end, a specific Treasurer's Instruction (TI 323) has been issued which deals with timely payment of accounts by government agencies. Treasurer's Instructions (TIs) are issued by the Treasurer under the authority of the *Financial Management Act 2006* and have the force of law. TIs must be observed by agencies to which they apply.

TI 323 requires agencies to make payments within 30 days of the receipt of invoice, or within 30 days of provision of the goods or services (whichever is later). It also requires agencies to take advantage of any discount available for earlier payment.

We last audited this area in 2007. In that audit we assessed 21 agencies and found that 14 per cent of payments were made after 30 days.

Our objective in this audit was to determine whether agencies were paying suppliers on time. The audit sought answers against two lines of inquiry:

- Have agencies developed procedures and controls for ensuring that payments are made on a timely basis?
- Are agencies making payments to suppliers on a timely basis?

We also examined whether agencies were receiving discounts for early payments. If discounts were offered, we tested whether payments were made in time to receive the discount.

Ten agencies were audited including two from our 2007 audit. Five of these agencies were using a shared services provider such as the now decommissioned Office of Shared Services or Health Corporate Network. We also audited one agency which was not subject to the *Financial Management Act 2006* and therefore not subject to TI 323. Although such agencies are not required to comply with TI 323, we consider the TI represents good practice.

In total, we tested a sample of 570 commercial payments made through accounts payable systems where an invoice was issued by a supplier for payment by the agency. These payments were from the 2012-13 financial year.

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

Conclusion

Ten per cent of the invoices we reviewed were paid later than 30 days, an improvement on the result from our 2007 audit when 14 per cent of payments were late. Further advances could be achieved if agencies improve the procedures and controls that ensure timely payments. Discounts for early payments were not often offered to government agencies but when offered they were taken up.

What Did We Find?

Only the Commissioner for Children and Young People was rated as ‘Good’ across both lines of inquiry. The following table is a summary of our findings. Agencies were rated on a three point scale of ‘Poor’, ‘Fair’ or ‘Good’.

Agency	Policies, Procedures and Controls	Timeliness of Payments
Albany Port Authority	Fair	Fair
Commissioner for Children and Young People	Good	Good
Department of Environment and Conservation ¹	Fair	Fair
Department of State Development	Fair	Good
Department of Water	Fair	Poor
Disability Services Commission	Poor	Poor
Legal Aid Commission of Western Australia	Poor	Fair
Mental Health Commission	Fair	Poor
Small Business Development Corporation	Poor	Poor
Western Australian Alcohol and Drug Authority	Good	Fair

Table 1: Agency ratings against our criteria

¹ From 1 July 2013, the Department of Environment and Conservation was restructured to form the Department of Parks and Wildlife and Department of Environment Regulation.

Policies, Procedures and Controls

Comprehensive policies, procedures and controls provide clarity and guidance to staff regarding expected timeframes for payments, recordkeeping and monitoring of payments.

Two of the ten agencies had good procedures and controls over the timeliness of payments. At the other agencies we noted that:

- Payment policies for three agencies were deficient because they did not specify a timeframe by which payments should be made or the timeframe stated in the policy was inconsistent with the requirements of TI 323.
- While all agencies were recording the date that the invoice was issued by the supplier, eight agencies were not consistently recording the date that the invoice was received by the agency or the date that the goods or services were received. This increases the likelihood that payments may be made earlier than required. Further information on this is provided in the table below (refer to Table 2).
- Nine of the ten agencies used automated system controls to assist in the prompt payment of invoices. However, the timeframes calculated by their systems were often inconsistent with the timeframes required by TI 323 as they were based on the date the supplier issued the invoice, the date the invoice was processed or the due date on the invoice rather than the date the invoice or the goods and services were received.
- Only three agencies regularly monitored unpaid invoices for late payments. Regularly monitoring unpaid invoices provides greater assurance that invoices will be paid in a timely manner.
- Some systems and controls were actually resulting in late payments rather than ensuring that payments are made on time. For example, two agency systems would not allow an invoice to be paid prior to its due date (30 days). As these agencies processed payments on a weekly basis, this meant that payments may be up to one week late.

Agency	Percentage of Invoices Where The Date Was Correctly Recorded
Albany Port Authority ¹	68%
Commissioner for Children and Young People	100%
Department of Environment and Conservation	82%
Department of State Development	74%
Department of Water	90%
Disability Services Commission	75%
Legal Aid Commission of Western Australia	45%
Mental Health Commission	98%
Small Business Development Corporation	77%
Western Australian Alcohol and Drug Authority	100%

Table 2: Agency results – percentage of invoices where the date was correctly recorded

¹ The Albany Port Authority is not subject to the *Financial Management Act 2006* and TI 323. The Authority's payment policy requires payments to be made within 30 days of the date that the supplier issued the invoice. Consequently, the date that the invoice is received is not regularly recorded.

Timeliness of Payments

Late payment of invoices adversely impacts the cashflow of suppliers and may expose agencies to additional costs such as late payment fees.

Ten per cent of the payments we examined were paid later than 30 days. The Department of State Development did not have any late payments and two agencies had only one or two late payments. The graph below highlights the percentage of late payments for each agency.

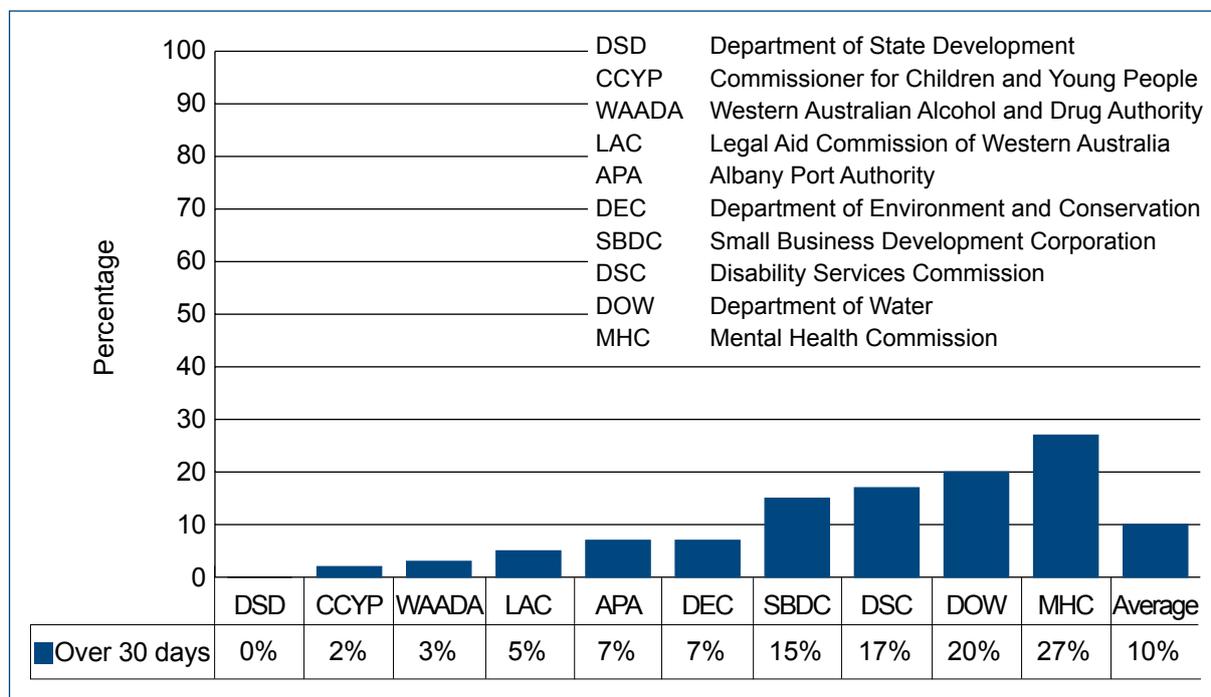


Figure 1: Percentage of payments by each agency made later than 30 days

Only two agencies were consistently recording the date that the invoice or goods and services were received. In these circumstances we have assumed that the invoice was received three days after the date on the invoice.

While over ten per cent of the payments were late, 94 per cent were paid on or within 35 days. Two per cent of payments took longer than 60 days which is consistent with the results of our 2007 audit. The largest late payment in our sample was for \$74 000 compared to \$406 000 in our 2007 audit. Three agencies, the Commissioner for Children and Young People, Western Australian Alcohol and Drug Authority and Albany Port Authority did not have any late payments which took longer than 60 days to pay. The longest overdue payment was 197 days overdue.

Some of the reasons for late payments included:

- Delays in the invoice being provided to the finance area/shared services provider for processing. In some instances, this was due to invoices needing to be approved by several regional offices prior to being sent to Perth for processing.
- Errors in the invoice approval and authorisation process which required investigation and follow-up by agencies. These related to payments processed through the former Office of Shared Services.
- Agencies not making an allowance for the timing of their automated periodic payment run.

The timescale of when payments were made is illustrated in the graph below.

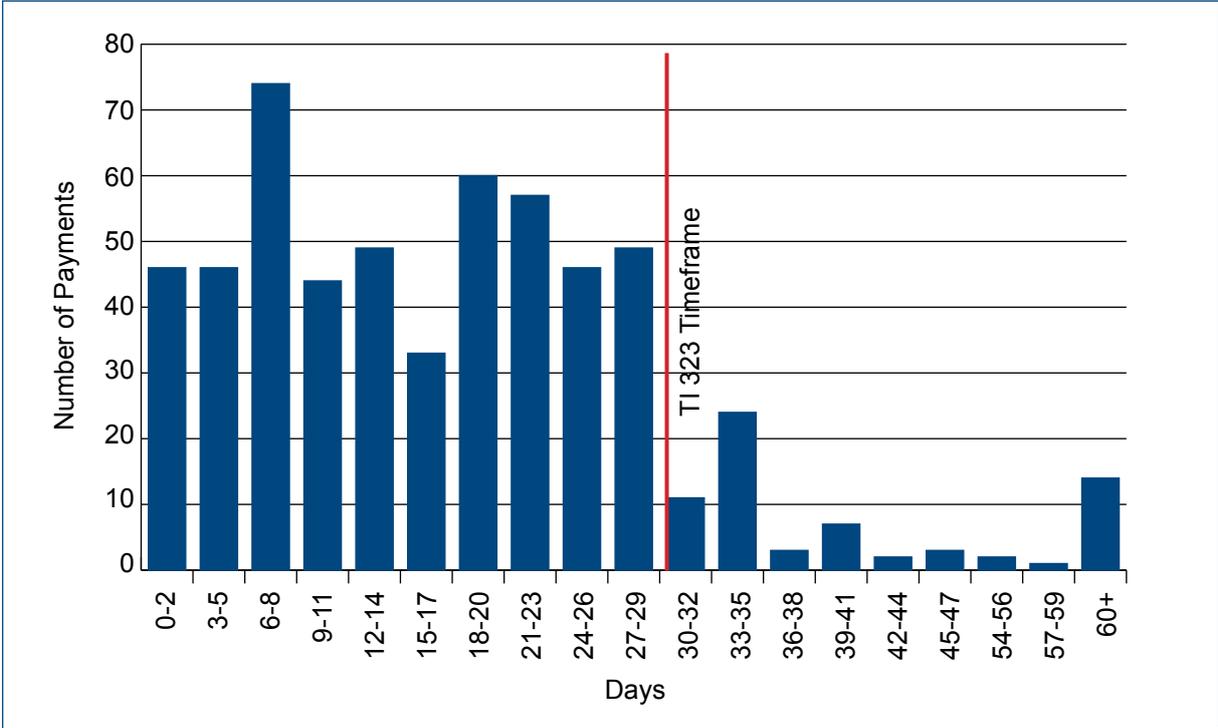


Figure 2: Timing of payments for all sampled agencies

In 2007 we found that 51 per cent of payments were made on or within 14 days. In this audit we found that 45 per cent of payments were made in that timeframe. These early payments mainly arose from agencies paying by the due date listed on the invoice. While TI 323 does not prohibit the early payment of invoices, it does require agencies to consider ‘appropriate cash management practices’ when determining the timing of the payment. Agencies should therefore consider cash management implications when deciding how early payments should be made.

Discounts from Suppliers

Only two agencies, the Department of State Development and Legal Aid Commission, were receiving discounts from suppliers for early payments. Discounts ranged from two to three per cent of the invoice amount. We found that payments to these suppliers were made on time to receive the discounts.

Recommendations

Agencies should:

- have policies that clearly require payment of invoices within 30 days of the receipt of invoice or receipt of goods and services (whichever is later) as required by Treasurer's Instruction 323
- ensure all payments are made in accordance with their policies
- record the date that the invoice or goods and services are received. Ideally, this information should be recorded in the agency's financial information management system and used as a key date for determining when payments should be made
- regularly monitor unpaid invoices for amounts which may be overdue or close to becoming overdue
- ensure automated system controls are designed to make payments within the timeframes specified by Treasurer's Instruction 323
- consider cash management implications when determining how quickly an invoice should be paid.

Agency Responses

Agencies in our sample generally accepted the recommendations and advised that they will improve their procedures and controls over timely payments.

Albany Port Authority

Albany Port Authority advised that it is not subject to the *Financial Management Act 2006* and TI 323 and that management is of the view that its payment procedure provides the requisite flexibility to deal with creditors having varying payment terms, and that they do not consider there to be any risk of incurring late payment fees.

Disability Services Commission

The Disability Services Commission advised that 75 per cent of the volume of its invoices for goods and services (excluding grants) are currently paid by credit card and are not processed through the accounts payable system which was audited by the Office of the Auditor General. The Commission also advised that in 2012-13, because their main item of expenditure, grants to funded agencies, is not paid on the basis of supplier invoices, only approximately \$37 million (5 per cent) of their total expenditure of \$718 million relates to goods and services.

Mental Health Commission

Mental Health Commission advised that the business rules established by their government shared service provider would not allow an invoice to be paid prior to its due date (30 days). As payments are processed on a weekly basis, this can result in payments made after 30 days.

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13	Sustainable Funding and Contracting with the Not-For-Profit Sector – Component I	18 September 2013
12	The Banksia Hill Detention Centre Redevelopment Project	7 August 2013
11	Information Systems Audit Report	27 June 2013
10	Supply and Sale of Western Australia's Native Forest Products	26 June 2013
9	Administration of the Patient Assisted Travel Scheme	26 June 2013
8	Follow-up Performance Audit of Behind the Evidence: Forensic Services	19 June 2013
7	Fraud Prevention and Detection in the Public Sector	19 June 2013
6	Records Management in the Public Sector	19 June 2013
5	Delivering Western Australia's Ambulance Services	12 June 2013
4	Audit Results Report – Annual Assurance Audits: Universities and state training providers and Other audits completed since 29 October 2012 – and Across Government Benchmarking Audits: Recording, custody and disposal of portable and attractive assets and Control of funds held for specific purposes	15 May 2013
3	Management of Injured Workers in the Public Sector	8 May 2013
2	Follow-on Performance Audit to 'Room to Move: Improving the Cost Efficiency of Government Office Space'	17 April 2013
1	Management of the Rail Freight Network Lease: Twelve Years Down the Track	3 January 2013



Office of the Auditor General
Serving the Public Interest

**Office of the Auditor General
Western Australia**

7th Floor Albert Facey House
469 Wellington Street, Perth

Mail to:
Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500

F: 08 6557 7600

E: info@audit.wa.gov.au

W: www.audit.wa.gov.au



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