

Western Australian Auditor General's Report



Timely Payment of Suppliers



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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Timely Payment of Suppliers



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

TIMELY PAYMENT OF SUPPLIERS

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

Across government benchmarking audits build on the annual financial audits of all agencies. We conduct these audits at a sample of agencies using more detailed testing than is required for the annual financial audits.

The audit assessed whether agencies are paying suppliers on a timely basis in accordance with the requirements and principles of the Treasurer's Instructions. We found that 8% of payments were paid more than 30 days after the invoice date, with no valid reason for the delay. While these delays are not acceptable, this was an improvement compared to our 2014 audit of timely payments, which found that 10% were late. However, we found that late payments were later in this audit than those in our 2014 audit.

The findings of this report provide an insight to good practice, so all agencies including those not audited, can consider their own performance.

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

COLIN MURPHY
AUDITOR GENERAL
21 June 2017

Contents

Timely payment of suppliers	4
Background	4
Conclusion	4
What we did	4
What did we find?	6
Inconsistent and inadequate practices are contributing to late payments	6
We identified \$8.1 million of payments that were late, with no valid reason	7
Recommendations.....	9
Agency responses	9

Timely payment of suppliers

Background

Western Australian government agencies spend billions of dollars on goods and services each year, most purchased from local suppliers. Agencies have a responsibility to pay for goods and services in a timely manner, thereby helping local industry to remain viable, and protecting the jobs of those who work for suppliers.

Treasurer's Instruction (TI) 323 Timely Payment of Accounts requires all payments to be made within 30 days of the receipt of the invoice, or within 30 days of receiving the goods or services (whichever is later). The TI is mandatory for agencies that fall under the *Financial Management Act 2006*, but we also consider it good practice for other government entities.

We last reported on timeliness of payments in 2014. In that audit, we reviewed 10 agencies and found that 10% of payments were made after 30 days and without a valid reason for the excessive delay. We found several areas where agencies could improve their procedures and controls for managing timely payments, with only 1 agency rated as good across our lines of inquiry.

Conclusion

Overall, we found that the agencies in this audit were more timely in paying suppliers within 30 days than the agencies in our similar audit of 2014. Approximately 8% of payments were made more than 30 days after the invoice date, with no valid reason for the delay, compared to 10% in 2014. However, in this audit, payments made after 30 days were later than the late payments we identified in our 2014 audit. Most agencies have appropriate policies and procedures for managing payments to suppliers, but need to improve their practices.

What we did

The focus of this audit was to assess whether agencies are paying suppliers on a timely basis in accordance with the requirements and principles of TI 323.

We assessed the policies and practices at 8 agencies over a 9 month period from January to September 2016, using the following lines of inquiry:

1. Do agencies have procedures and controls for ensuring that payments are made on a timely basis?
2. Are agencies paying suppliers on a timely basis?

Two agencies in our sample for this audit, Department of State Development and the Small Business Development Corporation, were also included in our 2014 audit. Our sample of agencies also included the Pilbara Ports Authority even though it is not subject to the *Financial Management Act 2006* and TI 323. In our view, TI 323 represents good practice and in this context is relevant to the Authority.

Whereas our 2014 audit involved selecting a sample of payments, in this audit we used data analytics to analyse all payments at the 8 agencies. By comparing invoice dates with payment dates, we identified all potentially late payments, from which we selected samples to determine:

- if there was a valid reason for the delay
- the primary reasons for delays.

In total, we analysed 124,533 payments totalling \$1.2 billion. These included 54,856 invoices paid through the accounts payable system and 69,677 invoices paid with purchasing cards. From 12,976 that were potentially¹ late payments, we selected a sample of 192 payments (24 per agency) to determine if there was a valid reason for the delay.

We conducted this across government benchmarking audit (AGBA) under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. AGBAs assess and benchmark agencies against common business practices to identify good practices and control weaknesses so that agencies, including those not audited, can compare their own performance.

¹ We regarded a payment as potentially late if paid more than 30 days after the date on the invoice.

What did we find?

We rated only the Small Business Development Corporation as 'good' across both lines of inquiry, a significant improvement on their performance in our 2014 audit.

Table 1 is a summary of our findings using a 3 point scale of 'poor', 'fair' or 'good'.

Agency	Policies, procedures and controls	Timeliness of payments
Department of Agriculture and Food Western Australia (DAFWA)	Fair	Fair
Department of Fire and Emergency Services (DFES)	Fair	Fair
Department of Health (DOH)	Fair	Fair
Department of Local Government and Communities (DLGC)	Fair	Poor
Department of State Development (DSD)	Fair	Good
Keep Australia Beautiful Council (KABC)	Fair	Good
Pilbara Ports Authority (PPA)	Fair	Good
Small Business Development Corporation (SBDC)	Good	Good

Table 1: Agency ratings against our criteria

Inconsistent and inadequate practices are contributing to late payments

Only 1 agency, the Small Business Development Corporation, had good procedures and controls over the timeliness of payments. Without robust policies, procedures and controls, the payment of invoices may not be timely.

To enable management to monitor whether invoices are paid within 30 days, it is important that agencies record the dates when goods or services, and the invoice, are received.

We found that, although this requirement was included in policies and procedures, few agencies were doing this consistently. We identified the following shortcomings:

- 21 of the 24 invoices sampled at the Department of Fire and Emergency Services had no record of when the invoice was initially received. Although the financial services section recorded the date they received the invoices, we were unable to determine how long it took for invoices to be passed from operational divisions to the financial services section.
- At the Pilbara Ports Authority, we noted that for invoices not requiring a purchase order, there was no record of the date the invoice was received.
- For 16 of the 24 invoices sampled at Department of Agriculture and Food, there was no record of whether the goods and services were received before payment was made.
- At Department of Health, 10 of the 24 sampled invoices had no record of the date the invoice was received. Consequently, the Department's processes did not enable management to use the finance system to determine when payments should be made.
- At the Department of Local Government and Communities, the invoice receipt date was not recorded for 8 of 24 invoices.

We also found a few instances where invoice dates were incorrectly entered into agency systems, resulting in late payments.

Some agencies' policies also did not require recording of the date that goods and services are received. As a consequence, management was unable to demonstrate that they delayed payment because the goods or services were received after the invoice.

Figure 1 shows the extent to which agencies were not recording the date they receive invoices.

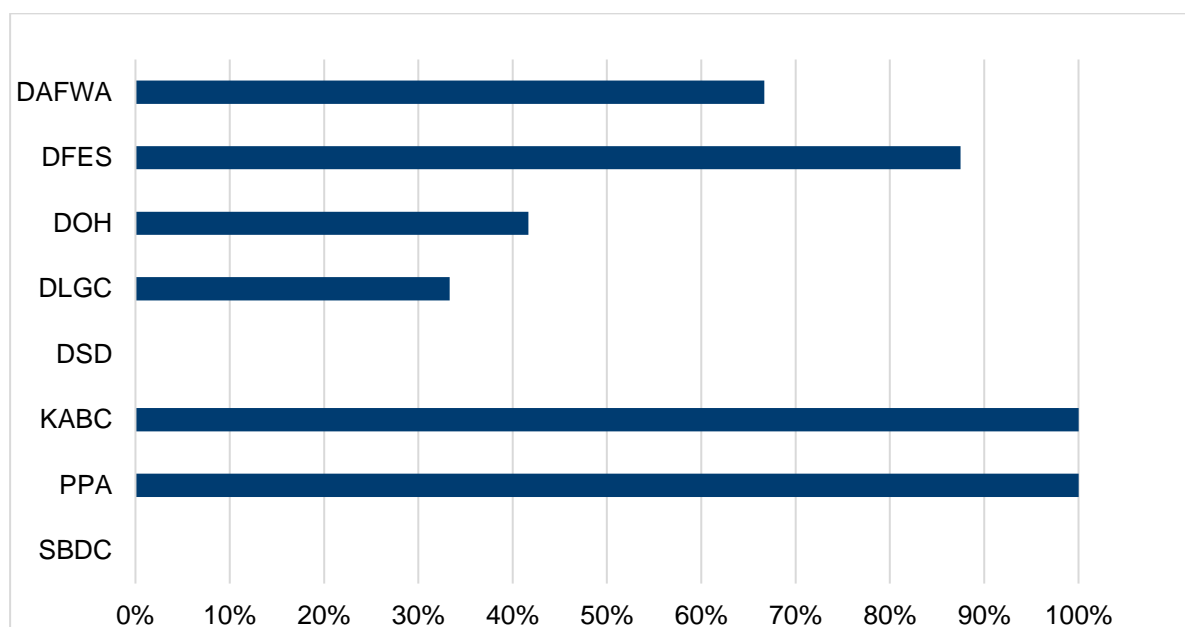


Figure 1: Percentage of transactions with no invoice receipt date recorded

We identified \$8.1 million of payments that were late, with no valid reason

Late payment of invoices adversely affect the cashflow of suppliers and may result in agencies incurring late payment fees.

Using data analytics, we identified all payments at the 8 agencies between 1 January and 30 September 2016 that were paid later than 30 days. Overall, 17% of payments were made later than 30 days after the invoice.² Of these potentially late payments, we selected 24 payments for each agency and assessed whether there was a valid reason for the delay. Valid reasons included:

- goods and services received after the invoice
- dispute with supplier
- delay in the supplier sending the invoice
- payment later than 30 days was based on the contractual agreement.

² Only 2 of the 8 agencies were consistently recording the date that the invoice or goods and services were received (see Figure 1). Where a receipt date was not recorded, we have assumed that the invoice was received 3 days after the date on the invoice.

Of 192 invoices paid later than 30 days, we found 87 payments (45%) totalling \$8.1 million were late with no valid reason (the red bars in Figure 2).

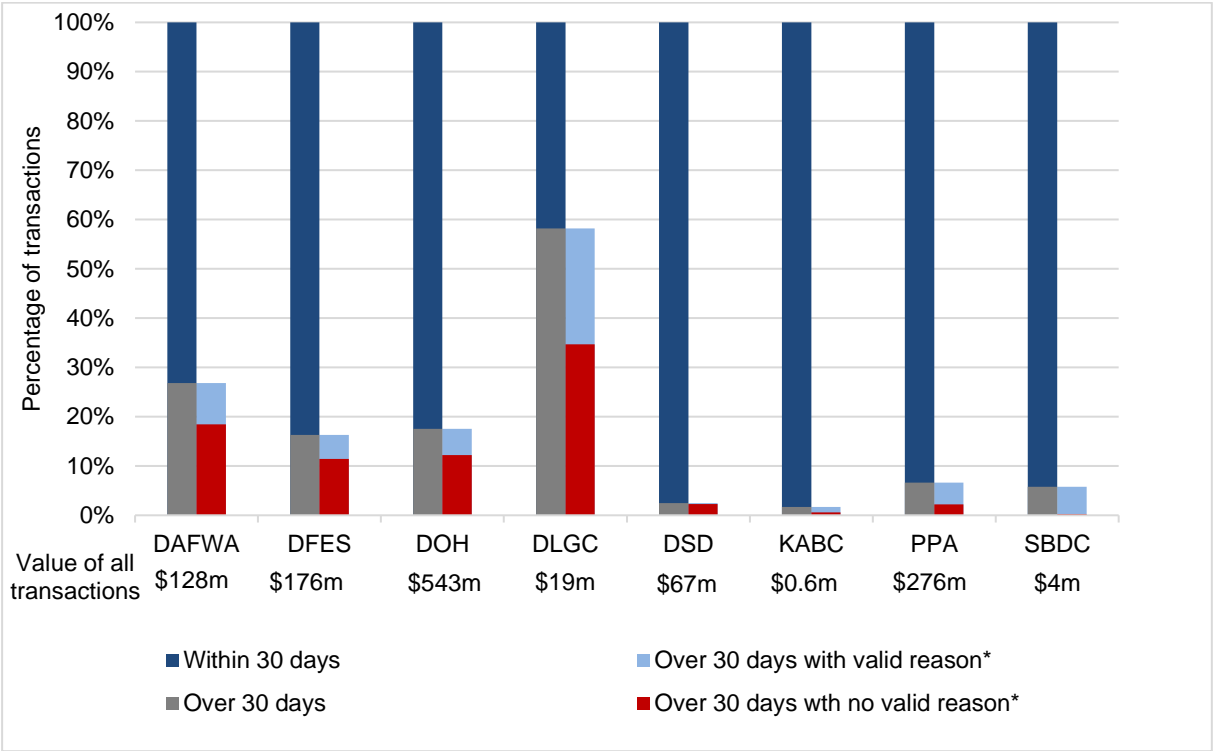


Figure 2: Proportion of payments made within, and later than 30 days

* Based on a sample of 24 payments per agency.

The largest payment we identified that was late with no valid reason, was \$1,744,575, paid 45 days after the invoice. The longest overdue payment, for \$671, was 939 days late.

In our previous audit, we noted that 94% of late payments were paid within 35 days and were therefore only a few days late. However, in this audit we found that only 55% of late payments were paid within 35 days.

Late payments occurred mainly because invoice recipients were tardy in forwarding them to the finance area for payment. Figure 3 shows the reasons for the late payments and how often they occurred.

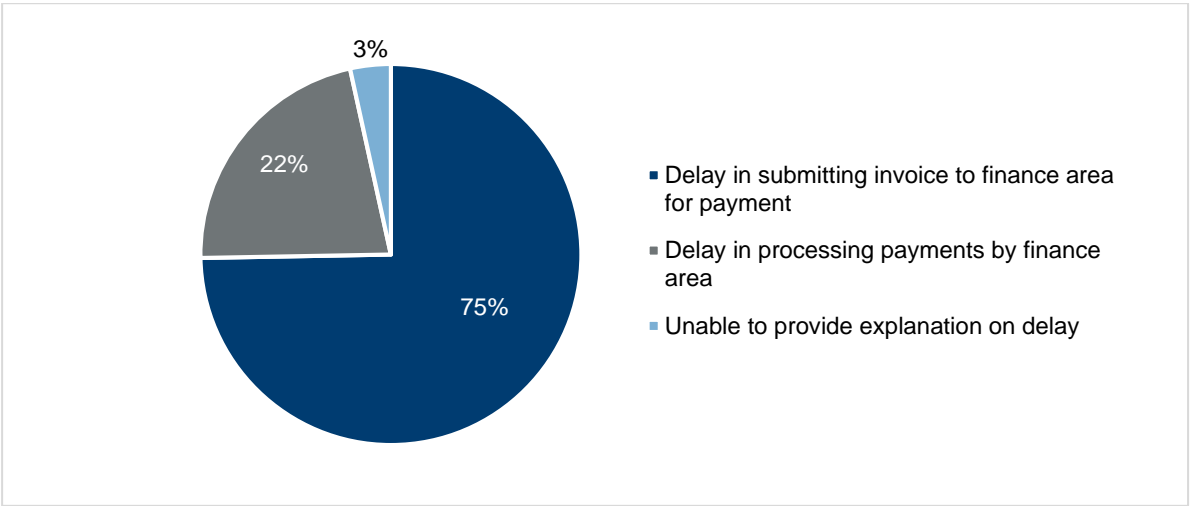


Figure 3: Reasons for unexplained late payments

Recommendations

All agencies should:

1. have policies that clearly require payment of invoices within 30 days of receiving the invoice, or the receipt of goods and services (whichever is later) as specified in TI 323
2. ensure they improve administrative processes so that all payments are made in accordance with their policies, unless there is a compelling reason
3. improve recordkeeping to ensure that, for all payments, there are records of the date that the invoice or goods and services were 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.

Agency responses

Agencies in our sample generally accepted the recommendations and confirmed that where relevant, they have either amended policies and administrative systems or will improve practices for managing timely payments.

Department of Fire and Emergency Services advised that 95% of the Department's late payments were made during the bushfire season of Jan/Feb 2016 when an emergency situation was declared for the Waroona/Yarloop fires and the Department's priority during that time was frontline firefighting response.

Auditor General's Reports

Report number	2017 reports	Date tabled
9	Opinion on Ministerial Notification	8 June 2017
8	Management of Medical Equipment	25 May 2017
7	Audit Results Report – Annual 2016 Financial Audits – Universities and TAFEs – Other audits completed since 1 November 2016	11 May 2017
6	Opinions on Ministerial Notifications	13 April 2017
5	Accuracy of WA Health's Activity Based Funding Data	11 April 2017
4	Controls Over Purchasing Cards	11 April 2017
3	Tender Processes and Contract Extensions	11 April 2017
2	Opinion on Ministerial Notification	6 April 2017
1	Opinion on Ministerial Notification	30 March 2017

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