

Western Australian Auditor General's Report



Timely Payment of Suppliers



Report 12: June 2018

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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 Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This focus area audit assessed whether 10 local governments were making payments to suppliers on a timely basis in accordance with better practice.

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

CAROLINE SPENCER
AUDITOR GENERAL
13 June 2018

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Timely Payment of Suppliers

Background

Each year local governments spend hundreds of millions of dollars purchasing goods and services. To assist the continued viability of businesses in Western Australia and to help small businesses in particular to manage cash flow and administrative costs, it is important that local governments make timely payments to suppliers. In some instances, slow payments may impact the ability of suppliers to meet subsequent orders.

Due to the variety of factors affecting the circumstances under which local governments and their suppliers operate, we did not expect to find identical payment practices across the local governments included in our audit. Local government regulations do not specify payment timeframes and during this audit we have not regarded a particular payment period as the ideal. Rather, we have had regard mainly to the policies and practices of the sampled local governments and the payment terms of their suppliers. This audit therefore required significant judgement when identifying and investigating the timeliness of payments.

Conclusion

Most payments were made in a timely manner. However, 7 local governments did not have formal payment policies and practices that addressed the need to pay on time, which led to inconsistency in how quickly payments were made. For the 3 local governments with timely payment policies, 15% of payments were outside the timeframes in the policies without a valid reason.

What we did

The focus of the audit was to assess whether 10 sampled local governments were making payments to suppliers on a timely basis in accordance with better practice.

We assessed the policies and practices over an 11-month period from 1 January to 30 November 2017, using the following lines of inquiry:

1. Have local governments developed procedures and controls for ensuring that payments are made on a timely basis?
2. Are suppliers being paid on a timely basis?

We audited 600 transactions across 10 local governments with a total value of \$68.9 million. Where payments were not made in accordance with policies and procedures or suppliers' terms, we considered whether there were valid reasons for delays.

We conducted this audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. The approximate cost of undertaking this audit was \$170,000.

Local governments included in our audit

Focus area audits assess local governments against common business practices to identify good practices and control weaknesses and exposures so that local governments, including those not audited, can evaluate their own performance.

When deciding which local governments to include in this audit we aimed for a mix of different size local governments from diverse locations with varying budgets, resourcing and purchasing requirements. This allowed us to identify potential issues, better practice examples and improvement opportunities that are likely to be applicable across the broader local government sector. We included the following local governments in this audit:

Local government	Number of transactions 1 January – 30 November 2017	Value of transactions 1 January – 30 November 2017
City of Armadale	20,723	\$77,888,825
Shire of Bruce Rock	1,642	\$6,333,914
City of Cockburn	20,981	\$114,500,102
Shire of Cunderdin	2,774	\$6,171,374
Shire of Kellerberrin	1,489	\$7,929,003
Shire of Kojonup	2,977	\$8,596,354
Shire of Merredin	3,976	\$8,075,895
City of Swan	27,650	\$123,501,738
Shire of Tammin	970	\$2,634,177
Shire of York	1,974	\$9,229,998
Total	85,156	\$364,861,380

Table 1: Volume and value of transactions

What did we find?

Only 3 local governments had policies and procedures that addressed timely payment of suppliers

Good policies and procedures provide essential guidance for staff to manage payments in accordance with management's expectations and the needs of suppliers. They should specify timelines and where appropriate, circumstances where alternate timelines may be acceptable.

Only 3 metropolitan local governments in our sample had policies or procedures that addressed the timely payment of suppliers. Two of these required payment within 30 days, with the other requiring payment by the end of the month after the invoice is received. For these 3 local governments 15% of payments did not comply with their policies and procedures.

To enable management to monitor any payment delays it is important to record the dates when goods or services and the invoice are received. While 6 of the 10 local governments were recording on the invoices the date that they were received, only the cities of Cockburn and Swan were recording the date that goods and services were received in their financial system to enable effective monitoring.

For our audit, where the local government had not recorded the date of receipt, we have assumed that the invoice was received 3 days after the date on the invoice.

At 4 local governments there was no documented evidence that someone had checked that goods and services were received prior to payment. Invoices were approved and it is possible that someone checked whether goods or services were received as part of this approval. Some local governments advised that their 'OK to Pay' stamp implied that goods or services were received, however, we consider that an explicit signoff for receipt is better practice.

For 13% of payments there was no valid reason why payments were later than supplier requirements or management policy/procedures

Delays in paying invoices adversely affects the cashflow of suppliers. It may also result in late payment fees although we did not find any instances in this audit.

Figure 1 shows the timing of all payments by number of days and by value including those with valid reasons and no reason for delays. This table shows that most payments were made within 32 days.

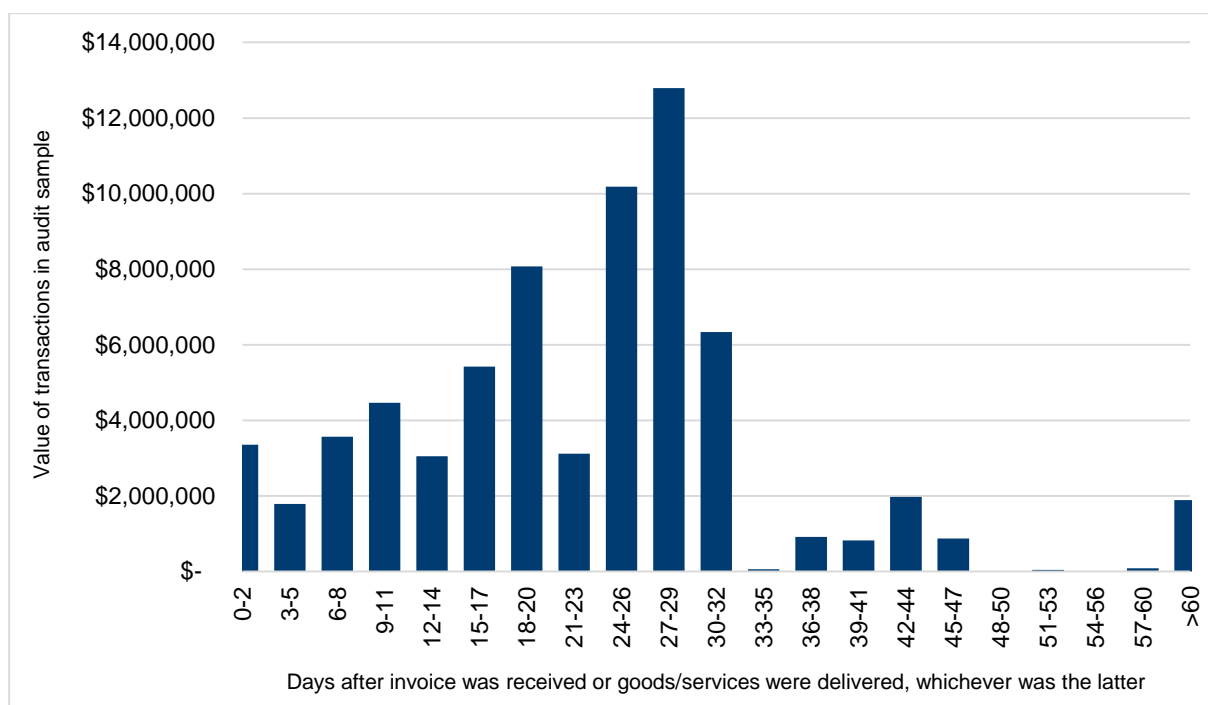


Figure 1: Timeline of all payments in our sample

The largest late payment to a state government agency with no valid reason was for \$5.2 million, paid 31 days after receipt of the invoice. This was 1 day later than the local government's policy. The largest late payment to a private sector supplier was \$1.4 million, paid 29 days later than the local government's policy.

The longest overdue payment, relating to the purchase of gym equipment, was paid 154 days after the invoice. There was no valid reason for the delay.

We regarded payments that, for no valid reason, did not meet supplier requirements or the local government's own policies and procedures and were also later than 30 days to be of particular concern. There were 75 payments (13%) which were paid later than 30 days and were either outside of the suppliers' terms or the local government's policy, split as shown in Figure 2.

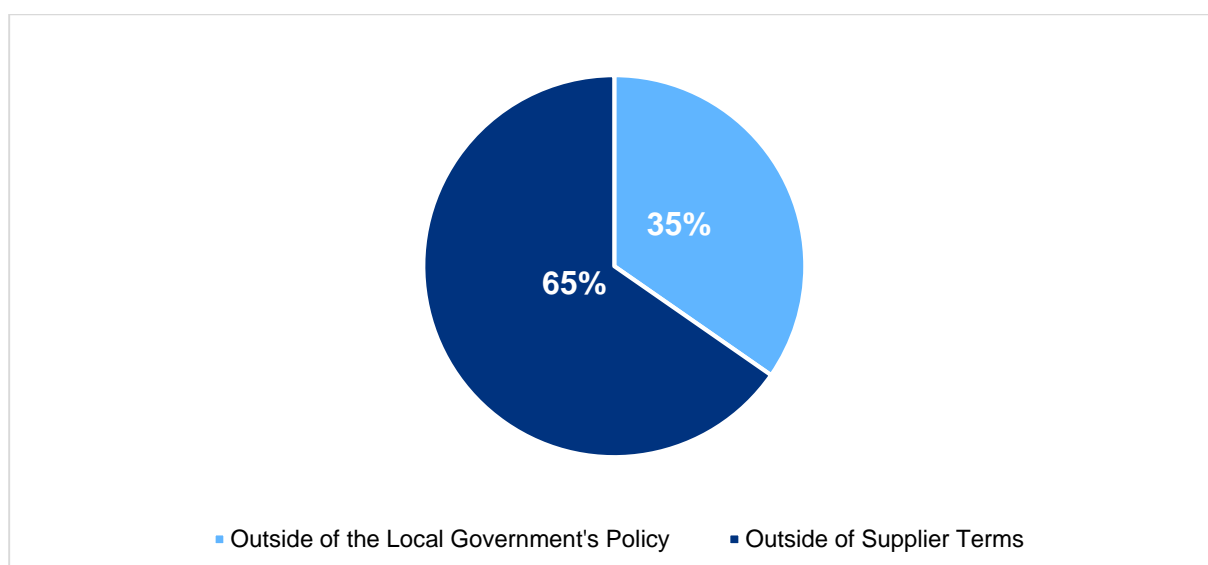


Figure 2: Analysis of payments later than 30 days without a valid reason

Figures 3 and 4 provide a breakdown of the main reasons for delays in paying invoices. Valid reasons for delays included:

- goods and services were received after the invoice was received
- dispute with the supplier
- delay in the supplier sending the invoice.

The main reasons for delays that we considered avoidable were:

- some larger local governments experienced internal delays in submitting invoices to the finance area for payment
- delays in processing payments in the finance area
- unable to provide an explanation for the delay
- misplaced or lost invoice.

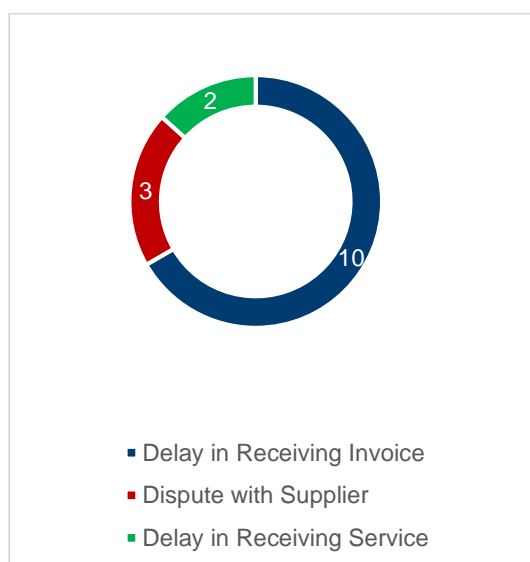


Figure 3: Valid reasons for delays

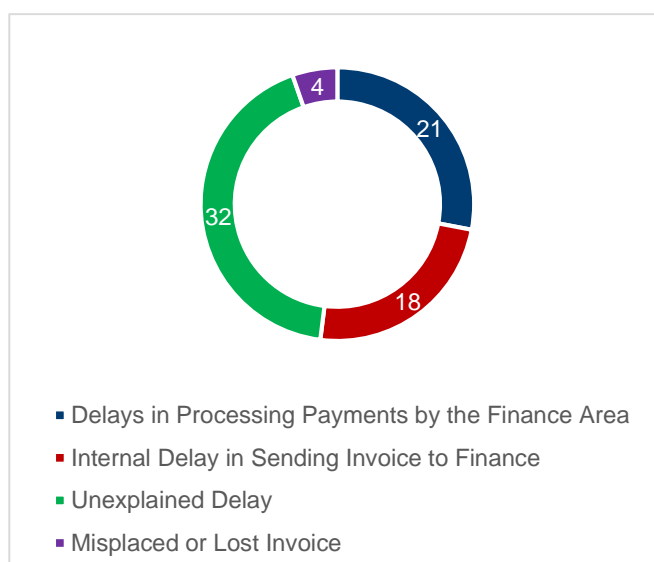


Figure 4: Invalid reasons for delays

Recommendations

Local governments should:

1. have policies or procedures that clearly require payment of invoices within specified periods after receiving the invoice or after the receipt of goods and services (whichever is later)
2. ensure they improve administrative processes so that all payments are made in accordance with their policies and procedures
3. improve recordkeeping to ensure that for all payments there are records of the date that the invoice and goods or services were received. Ideally, this information should be recorded in the financial information management system and used as a key date for determining when payments should be made.

Response from local governments

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

Auditor General's reports

Report number	2018 reports	Date tabled
11	WA Schools Public Private Partnership Project	13 June 2018
10	Opinions on Ministerial Notifications	24 May 2018
9	Management of the State Art Collection	17 May 2018
8	Management of Salinity	16 May 2018
7	Controls Over Corporate Credit Cards	8 May 2018
6	Audit Results Report – Annual 2017 Financial Audits and Management of Contract Extensions and Variations	8 May 2018
5	Confiscation of the Proceeds of Crime	3 May 2018
4	Opinions on Ministerial Notifications	11 April 2018
3	Opinion on Ministerial Notification	21 March 2018
2	Agency Gift Registers	15 March 2018
1	Opinions on Ministerial Notifications	22 February 2018

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