

# Kilkenny County Council

## Internal Audit Report [REDACTED] Review of Prompt Payments

Date: 31<sup>st</sup> July 2018

### Introduction

#### Report Distribution

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Audit Committee Members

Local Government Auditor

As part of the commitments in the EU/IMF Programme for Ireland, a 15 day prompt payment requirement was extended beyond Central Government Departments and rolled out to the Health Service Executive, the Local Authorities, State Agencies and all other Public Sector Bodies (excluding Commercial Semi-State bodies), in respect of valid invoices received, on or after, 1 July 2011. This arrangement does not alter contractual relationships and does not change the legal position in relation to late payments. As part of the 15 day prompt payment requirement, Government Departments and relevant public sector bodies are required to publish on their respective websites, their quarterly payment performance reports (Appendix A).

Local Authorities have a statutory obligation, under the Prompt Payments legislation, to pay for the goods and services that they procure within 30 calendar days, or in very exceptional circumstances, within 60 calendar days. In the absence of any agreed payment date between the parties (i.e. specified in the contract), late payment interest falls due after 30 days has elapsed, provided the invoice is not subject to query. Enterprises are automatically entitled, without the necessity of a reminder, to interest for late payments. With effect from **1 January 2018**, the late payment interest rate is **8.00%** per annum (that is based on the ECB rate (as at 1 January 2018) of 0.00% plus the margin of 8%). This rate equates to a daily rate of 0.022%

Where late payment interest falls due, the supplier is also entitled to the automatic payment of compensation costs. The compensation costs vary between €40 and €100 depending on the amount of the invoice.

### Objectives

The objective of the audit is to provide reasonable assurance that Kilkenny County Council are complying with the 15 day prompt payment requirement and the European Communities (Late Payment in Commercial Transactions) Regulations 2012.

**Approach**

Internal Audit spoke with Accounts Payable staff of the Finance Dept. Prompt payment reports of other local authorities were examined to compare compliance. A sample of transactions was examined to ensure Kilkenny County Council is accurately adhering to the legislation.

**Scope & Limitations of scope**

The scope of the review was limited to the Q4 2017 prompt payments reports. Internal Audit examined over 40% of the transactions that were subject to prompt payment interest in Q4 2017.

**Audit Risk**

- Non compliance with legislation and government policy.
- Incorrect calculation of prompt payment interest and penalties.
- Financial and reputational risk if not paying suppliers promptly.
- Negative impact on relationships with suppliers.

**Co-operation of Management and staff**

Internal Audit received full co-operation from Council Management and staff throughout the course of this review and would like to thank them for their assistance.

## Detailed Findings & Recommendations

<i><b>Finding</b></i>	<i><b>Implication</b></i>	<i><b>Recommendation</b></i>	<i><b>Management Action Plan</b></i>
<ul style="list-style-type: none"> <li>• In Q4 2017, 111 out of 3993 invoices paid were subject to late payment interest and compensation</li> <li>• Late payment interest of €488.91 and compensation payments of €4,000 was paid to suppliers in Q4 2017.</li> <li>• Internal Audit examined 50 of the 111 invoices that were subject to late payment interest. 4 invoices examined were incorrectly subject to late payment interest as the invoice date was used instead of the received date.</li> <li>• As part of the 15 day prompt payment requirement, Government Departments and relevant public sector bodies are required to publish on their respective websites, their quarterly payment performance reports. The report is also sent to the Department of Housing, Planning and Local Government who collate the reports of all local authorities.</li> <li>• The 2017 Q4 payment performance report (Appendix A) that was published on the website and sent to the Department did not include the amounts of interest or compensation paid in the quarter. The percentage breakdown of the total number of payments made is also incorrect on the report. Internal Audit notes that the report on the website has since been corrected.</li> </ul>	<ul style="list-style-type: none"> <li>• Incorrect payment of Late Payment Interest.</li> <li>• Negative impact on relationship with local suppliers</li> <li>• Inaccurate data published on website and submitted to the Dept.</li> </ul>	<ul style="list-style-type: none"> <li>• All invoices should be date stamped as soon as they are deemed to be valid.</li> <li>• Invoices that are liable for late payment interest should be checked to ensure that the correct date has been input on to the system.</li> <li>• The quarterly performance report run from Agresso is not functioning properly as the percentage breakdown is incorrect. This should be corrected immediately.</li> </ul>	<ul style="list-style-type: none"> <li>• All invoices will be date stamped as soon as they are deemed to be valid.</li> <li>• Checks will be performed for date validity at the time of payment run.</li> <li>• The quarterly report from Agresso has since been updated for the new format and the percentage breakdown is now correct.</li> </ul>

<i><b>Finding</b></i>	<i><b>Implication</b></i>	<i><b>Recommendation</b></i>	<i><b>Management Action Plan</b></i>
<ul style="list-style-type: none"> <li>As in the Q4 2017 report, the percentage breakdown of total number of payments made is also incorrect on the Q1 2018 report.</li> <li>Internal Audit compared Kilkenny's prompt payment data with five neighbouring local authorities (Appendix B).</li> <li>Kilkenny performed very well on payment of invoices within 15 days. 87% of their invoices in Q4 2017 were paid within 15 days. This was higher than the average of 74% achieved between the six authorities compared</li> <li>Kilkenny did not perform as well when looking at invoices paid outside the 30 day period. 2.78% of Kilkenny's invoices in Q4 2017 were liable for interest and compensation. This was the highest among the authorities compared.</li> </ul>	<ul style="list-style-type: none"> <li>Kilkenny County Council may be seen as hindering local businesses if not strictly adhering to prompt payments policy.</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly payment performance report should be checked and signed by supervisor before being published on website.</li> <li>All staff should be made aware of the implications of delaying the payment process. This is especially relevant during the Summer/Christmas seasons when staff are on leave and unpaid invoices may be left on desks.</li> <li>Kilkenny County Council should sign up to the Prompt Payments Code which encourages best practice in relation to prompt payments.</li> </ul>	<ul style="list-style-type: none"> <li>SSO to sign off on all quarterly payment performance reports.</li> <li>Regular reminders to be sent to all staff.</li> </ul>

*This report has been considered and approved by the Management Team of Kilkenny County Council.*

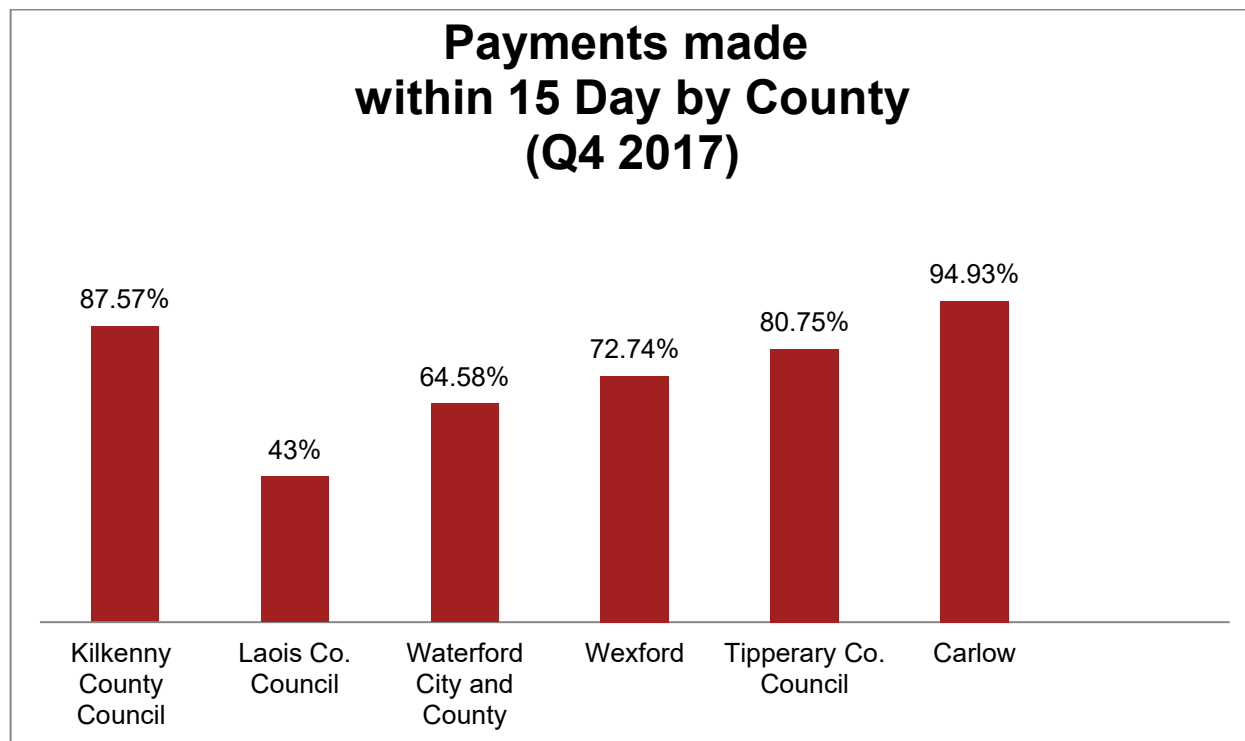
# Appendix A – Payment Performance Report

Public Sector Body: KILKENNY COUNTY COUNCIL

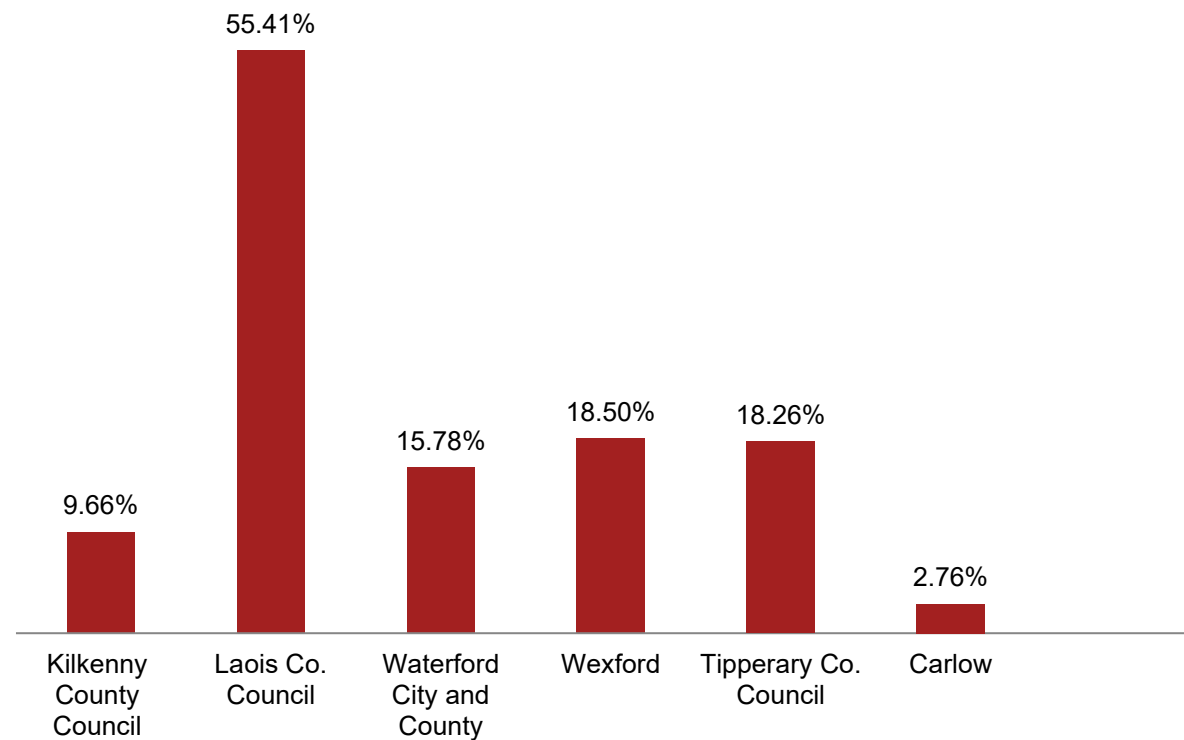
Quarterly Period Covered: 01/10/2017 to 31/12/2017

Details	Number	Value (€)	Percentage (%) of total number of payments made
Total invoices paid in Quarter	3993	€15,339,233.52	100%
Payments made within 15 days	3469	€14,223,996.26	86.88%
Payments made within 16 days to 30 days	407	€895,481.03	10.19%
Payments made in excess of 30 days that were <u>subject</u> to LPI and compensation costs	111	€191,124.33	2.78%
Payments made in excess of 30 days that were <u>not subject</u> to LPI and compensation costs	6	€28,631.90	0.15%
Amount of Late Payment Interest (LPI) paid in Quarter	N/A	€488.91	N/A
Amount in compensation costs paid in Quarter	N/A	€4,000.00	N/A

## ***Appendix B – Payment Performance Report Comparison with other Local Authorities.***



### Payments made within 16 to 30 days by County (Q4 2017)



### **% of Quarterly Payments by County Subject to Late Payment Interest (Q4 2017)**

2.78%



0.00%

0.00%

0.00%

0.96%

0.00%

Kilkenny  
County  
Council

Laois Co.  
Council

Waterford  
City and  
County

Wexford

Tipperary Co.  
Council

Carlow