



**CITY OF HAMILTON  
CITY MANAGER'S OFFICE  
Audit Services Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	April 24, 2017
<b>SUBJECT/REPORT NO:</b>	Audit Report 2015-13 Continuous Auditing Pilot – Accounts Payable (AUD17009) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Charles Brown CPA, CA, CPA (Illinois) 905-546-2424 x4469
<b>SUBMITTED BY:</b>	Charles Brown CPA, CA, CPA (Illinois) Director, Audit Services City Manager's Office
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That recommendations #1 – 14, as attached in Appendix “A” of Report AUD17009, respecting the Accounts Payable Continuous Auditing Pilot, be approved; and
- (b) That the General Manager of Finance and Corporate Services be directed to provide to the Audit, Finance and Administration Committee by June 30, 2017 the management action plans for addressing the implementation of the Audit report recommendations.

**EXECUTIVE SUMMARY**

The 2015 Internal Audit work plan approved by Council included a review of Accounts Payable transactions and processes in order to develop a program to oversee and monitor payment controls throughout the year. Accounts Payable transactions for the period of April 2014 to October 2015 were reviewed for compliance with policies and procedures as well as ensuring the accuracy, timeliness and authorization in regard to vendor payments.

The results of the audit are presented in a formal Audit Report (2015-13) containing observations and 14 recommendations. The General Manager of Finance and Corporate Services will be directed to supply action plans to the 14 recommendations in the Audit Report 2015-13 attached as Appendix “A” to Report AUD17009 to the Audit, Finance and Administration Committee by June 30, 2017.

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*OUR Vision: To be the best place to raise a child and age successfully.*

*OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.*

*OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.*

In addition, Audit Services has developed Accounts Payable continuous auditing procedures which are expected to begin in Q2 2017.

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: Additional system parameters and scanning processes may further detect and prevent payment of potential duplicate invoices. Monitoring invoice approval times and lost vendor discounts may result in expedited approval processes and discount savings. A financial opportunity may exist to negotiate early payment discounts with vendors.

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND**

The audit was scheduled as part of the 2015 Internal Audit work plan approved by Council. The results of this audit are attached as Appendix “A” of Report AUD17009.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Various training manuals and procedures maintained by Accounts Payable

**RELEVANT CONSULTATION**

Appendix “A” to Report AUD17009 includes observations which were discussed with the following individuals in the City’s Financial Services and Financial Planning & Policy Divisions of the Corporate Services Department:

- Director of Financial Services & Corporate Controller
- Manager of Business Applications, Accounts Payable & Accounts Receivable
- Director of Financial Planning & Policy

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

In 2013, Audit Services began developing a continuous auditing framework. Continuous auditing is an automatic method used to perform auditing activities, such as control assessments, on a more frequent basis. The intent was to move certain audit activities from a periodic project to a standardized, repeatable basis performed with higher frequency in order to provide ongoing assurance and more timely identification and mitigation of risk indicators. Technology plays a significant role in continuous auditing by helping to automate the detection of exceptions, analyse patterns and test controls, among other activities. In 2014, Audit Services acquired a data extraction and analysis software application to aide in continuous auditing efforts. Accounts Payable was one to two pilot areas included in the 2015 Internal Audit work plan for continuous auditing.

Accounts Payable transactions for the period of April 2014 to October 2015 were reviewed for compliance with policies and procedures as well as ensuring the accuracy, timeliness and authorization in regard to vendor payments. Risks and observations from a prior Accounts Payable audit were incorporated unto the planning for this year's review. Various analyses developed and carried out during this review will be used to carry out Accounts Payable continuous auditing activities which are expected to begin in Q2 2017. Audit Services will submit a report to the Audit, Finance and Administration Committee in early 2018 with the results of the first year of Accounts Payable continuous auditing.

A formal Audit Report (2015-13) containing observations and recommendations was issued. Fourteen recommendations were included in Audit Report 2015-13 (attached as Appendix "A" to Report AUD17009). Some of the recommendations made are as follows:

- Make online invoice approval system training mandatory for all new users.
- Monitor the amount of time taken to approve invoices and take action with users who consistently exceed the 30-day target.
- Incorporate time metrics into Performance Accountability and Development forms for those processing invoice payments.
- Explore additional system parameters and scanning processes to further detect and prevent payment of potential duplicate invoices.
- Negotiate early payment savings opportunities for new vendors.
- Develop reports to monitor the value of vendor discounts realized and lost.

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The General Manager of Finance and Corporate Services will be directed to supply action plans to the 14 recommendations contained in Appendix “A” to Report AUD17009 to the Audit, Finance and Administration Committee by June 30, 2017.

Audit Services conducted this review in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the review to obtain sufficient, appropriate evidence to support the findings and conclusions based on the review objectives. Audit Services believes that the work performed provides a reasonable basis for the review comments and conclusions.

#### **ALTERNATIVES FOR CONSIDERATION**

Not applicable.

#### **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

##### **Our People and Performance**

*Hamiltonians have a high level of trust and confidence in their City government.*

#### **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report AUD17009