



Assurance Engagement: large payments to external vendors-Testing for duplicate payments Report

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Executive Summary

Background

At its May 1, 2007 meeting, the Treasury Board of Canada Secretariat Audit and Evaluation Committee approved the "*Preliminary Survey Report – Audit of Accounts Payable*" and the deferral of the detailed examination phase

of the audit. The Committee requested that Internal Audit and Evaluation undertake selected testing of accounts payable during fiscal year 2007-08. The *Assurance Engagement of Accounts Payable – Large Payments to External Vendors* was therefore included as part of the *Treasury Board of Canada Secretariat Three Year Risk Based Audit Plan* (Fiscal Year 2007-2008 to 2009-2010). The engagement period was from September 2007 to April 2008.

Accounts payable are liabilities that occur when amounts are owing to creditors for goods received or services rendered. An accounts payable arises because of the time lag between the receipt of goods and services and the time in which the invoice is paid. Accounts payable are recognized for payment upon receipt of an invoice that has been approved under section 34 of the *Financial Administration Act*. Furthermore, the Treasury Board policy on *Account Verification* states that as part of the section 34 account verification process, transactions should be reviewed for accuracy such as ensuring that the payment is not a duplicate.

The definition of large payments for the purposes of this engagement is individual payments greater than \$100,000 made to external vendors.

During the period of under review, there was a centralized accounts payable function for Treasury Board of Canada Secretariat and Finance Canada under the Financial Policies and Procedures Division within the Corporate Services Branch.

Objective and Scope

The engagement objective was to conduct selected tests and analysis, based on a risk assessment, to provide additional assurance on issues and findings identified in the "*Preliminary Survey Report – Audit of Accounts Payable*." In particular, the engagement sought to provide reasonable assurance that there were no duplicate large payments made to external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8),

The engagement covered all transactions greater than \$100,000 processed for external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8.) The examination phase was conducted between September 2007 and February 2008.

Conclusion

In conclusion, the results provide reasonable assurance that there were no duplicate payments made for all 530 large payments processed for the 32 external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8).

Assurance Statement

We concluded with a reasonable level of assurance that there were no duplicate payments for all 530 large payments processed for the 32 external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8).

In the professional judgment of the Chief Audit Executive, sufficient and appropriate procedures have been conducted and evidence has been gathered to support the accuracy of the opinion provided in this report. The opinion is based on a comparison of the conditions, as they existed at the time of the engagement, against pre-established criteria. The approach and methodology followed the required assurance engagement standards as defined by the Internal Auditors *Professional Practices Framework* and the *Internal Auditing Standards for the Government of Canada*.

The opinion is only applicable for the entities and transactions examined and for the time period specified.

Introduction

At its May 1, 2007 meeting, the Treasury Board of Canada Secretariat Audit and Evaluation Committee approved the "*Preliminary Survey Report – Audit of Accounts Payable*" and the deferral of the detailed examination phase of the audit. The Committee requested that Internal Audit and Evaluation undertake selected testing of accounts payable during fiscal year 2007-08. The *Assurance Engagement of Accounts Payable – Large Payments to External Vendors* was therefore included as part of the *Treasury Board of Canada Secretariat Three Year Risk Based Audit Plan* (Fiscal Year 2007-2008 to 2009-2010). The engagement period was from September 2007 to April 2008.

Accounts payable are liabilities that occur when amounts are owing to creditors for goods received or services rendered. An accounts payable arises because of the time lag between the receipt of goods and services and the time in which the invoice is paid. Accounts payable are recognized for payment upon receipt of an invoice that has been approved under section 34 of the *Financial Administration Act*.

Requisitions for payments and settlements from the Consolidated Revenue Fund are to be submitted to the Receiver General in accordance with the format, information, certification, verification and data integrity requirements stipulated in the *Payments and Settlements Requisitioning Regulations*, 1997 of the *Financial Administration Act*. The Treasury Board Account Verification policy indicates that responsibility for the system of account verification and related financial controls rests ultimately with those officers who are delegated payment authority pursuant to section 33 of the *Financial Administration Act*. Financial officers with payment authority must provide assurance of the adequacy of the section 34 account verification process and be in a position to state the process is in place and being followed. Furthermore, as part of the account verification process, transactions should be reviewed for accuracy such as ensuring that the payment is not a duplicate.

During the period under review, there was a centralized accounts payable function for Treasury Board of Canada Secretariat and Finance Canada under the Financial Policies and Procedures Division within the Corporate Services Branch.

Large payments to external vendors. The definition of large payments for the purposes of this engagement is individual payments greater than \$100,000 made to external vendors.

The Assurance Engagement of Accounts Payable – Large Payments to External Vendors is part of the approved Treasury Board of Canada Secretariat Three Year Risk Based Audit Plan (Fiscal Year 2007-2008 to 2009-2010).

Objective and Scope

The engagement objective was to conduct selected tests and analysis, based on a risk assessment, to provide additional assurance on issues and findings identified in the "Preliminary Survey Report – Audit of Accounts Payable." In particular, the engagement sought to provide reasonable assurance that there were no duplicate large payments made to external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8),

The engagement covered all transactions greater than \$100,000 processed for external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8). The examination phase was conducted between September 2007 and February 2008.

The engagement scope was limited to large payments to external vendors. The scope did not verify the existence of the good or service or include an assessment of the effective use of goods and services provided by external vendors. In addition, the engagement did not validate internal controls within related business applications.

Engagement Criteria

The criteria and tests used in the conduct of the engagement are based on the *Financial Administration Act* and Treasury Board financial management policies and procedures. The criteria are presented in [Appendix 1](#).

Approach and Methodology

The engagement approach and methodology is risk-based and is consistent with the requirements for assurance engagements as defined by the Institute of Internal Auditors *Professional Practices Framework* and the *Internal Auditing Standards for the Government of Canada*. These standards require that the engagement be planned and performed in such a way as to obtain reasonable assurance that the objective is achieved. The engagement was conducted in accordance with an engagement program that defined tasks to assess each criterion.

The approach used in carrying out the engagement included:

- Reviewing applicable legislation, policies, procedures, and other information related to the processing of large payments to external vendors;
- Identifying types of expenditures greater than one million dollars;
- Extracting from the general ledger accounts with a balance greater than one million dollars for each type of expenditure identified;
- Analyzing the data extracted to identify vendors who received payments larger than \$100,000 during fiscal year 2006-07 and 2007-08 (periods 1 to 8);
- Extracting vendor account files from the SAP financial system and obtained their paper files when required; and
- Examining all transactions processed in order to verify that no duplicate payments were made.

The selected tests and analysis conducted were based on a judgmental sample of the type of expenditure and the materiality of its annual balance. We assessed all transactions processed that were greater than \$100,000 during fiscal year 2006-07 and 2007-08 (periods 1 to 8). The total number and dollar value of the transactions for the period were as follows:

Table 1: Total number and dollar value of the transactions assessed.

Fiscal Year	Number of vendors	Number of transactions	Total dollar value of transactions (\$M)
2006-07	25	280	\$854.2
2007-08 (periods 1 to 8)	19	250	\$630.6
Total	32*	530	\$1,484.8

Source: Download from the SAP financial system

* The total number of external vendors that received payments during the period under review was 32, however not all external vendors received payments in both fiscal years while some received payments in both fiscal years.

Engagement Results

Verification of payments to check for duplicate payment errors

There were no duplicate payments in all 530 large payments processed for the 32 external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8).

The Treasury Board policy on *Account Verification* states, among other things, that as part of the section 34 account verification process, transactions should be reviewed for accuracy such as ensuring that the payment is not a duplicate.

In order to determine whether duplicate payments were made, we extracted vendor account files from the SAP financial system and obtained their paper files when required. We examined all transactions (530) in the 32 vendor files to verify that there had not been any duplicate payment for a same invoice. In cases where a vendor had more than one vendor number, we obtained the source documentation from the paper files for review, analysis and verification.

We found no instances of duplicate payments during fiscal year 2006-07 and 2007-08 (periods 1 to 8) to the vendors, whose detailed transactions and files were examined.

Recommendation: N/A

Management Action Plan: N/A

Overall Conclusion

In conclusion, the results provide reasonable assurance that there were no duplicate payments made for all 530 large payments processed for the 32 external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8).

Assurance Statement

We concluded with a reasonable level of assurance that there were no duplicate payments for all 530 large payments processed for the 32 external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8).

In the professional judgment of the Chief Audit Executive, sufficient and appropriate procedures have been conducted and evidence has been gathered to support the accuracy of the opinion provided in this report. The opinion is based on a comparison of the conditions, as they existed at the time of the engagement, against pre-established criteria. The approach and methodology followed the required assurance engagement standards as defined by the Internal Auditors *Professional Practices Framework* and the *Internal Auditing Standards for the Government of Canada*.

The opinion is only applicable for the entities and transactions examined and for the time period specified.

Appendix 1: Audit Criteria

Lines of Enquiry	Audit Criteria
Provide reasonable assurance that there were no duplicate large payments made to external vendors during fiscal year 2006-07 and 2007-08 (periods 1 to 8)	For each of the transactions identified in our judgmental sample, verify that there has not been a duplicate payment processed for a same invoice.
	For payment transactions made to a same vendor (which could include vendors with more than one vendor number): <ul style="list-style-type: none"> ▪ Obtain a copy of the vendor account in SAP and the vendor paper file; ▪ Examine the information and verify the existence of an invoice and/or contract on file and match the value of the payment with a corresponding value in the SAP financial system; and ▪ Verify that there has not been a duplicate payment for a same invoice.