WIRRAL

AUDIT AND RISK MANAGEMENT COMMITTEE

TUESDAY 24 OCTOBER 2023

REPORT TITLE:	PROCUREMENT UPDATE – NO PO NO PAY
REPORT OF:	DIRECTOR OF FINANCE

REPORT SUMMARY

This report provides an update on the 'No PO No Pay' policy, and the guidance and procedures associated with this area.

The improvements brought about by the implementation of the new Oracle Fusion system in relation to purchase order (PO) processing, supplier management and system controls are outlined.

This matter affects all Wards within the Borough. It is not a key decision.

RECOMMENDATION

Members of the Audit and Risk Management Committee are recommended to note the report.

1.0   REASON FOR RECOMMENDATIONS

1.1   To provide the Audit and Risk Management Committee with assurance that the Council is taking appropriate measures to comply with Contracts Procedure Rules. In addition to provide assurance that the Council's 'No PO No Pay' policy is applied and adhered to - that the control measures in place are robust, adequate and are being enforced and followed.

2.0   OTHER OPTIONS CONSIDERED

2.1   Providing reports to members is considered the appropriate avenue to demonstrate that the Council is reporting on performance and improvement. This ensures accountability that procedures and processes are in place, that they are being enforced, monitored and reported accordingly to ensure good performance. This update forms part of the Committee's workplan so no alternative was considered.

3.0   BACKGROUND INFORMATION

3.1   Contract Procedure Rules (CPRs), approved by this Committee, the most recent iteration of which were agreed in June 2022.

3.2   The CPRs include the adoption of the Public Procurement Regulations 2015, the Transparency Code 2015 and the requirement to publish all contracts above £5k in value.

3.3   The Council commenced a 'No Po No Pay' policy in 2019. This was to ensure that proper due diligence was being followed when paying suppliers for goods and services when engaging with the Council. It would also ensure that the correct financial controls were being followed and assist in ensuring that value for money was being achieved.

3.4   The Council launched the new Oracle Fusion finance, budget management and procurement system at the start of the financial year. This has brought a range of benefits and with specific reference to purchase orders it has improved:

- Approach to supplier registration
- Control processes, including in relation to purchase orders.
- Communication channels with suppliers
- Invoice processing

ACCOUNTS PAYABLE PROCESS

3.5   The Accounts Payable function has in place guidance notes that details the benefits of purchase orders, the procedures associated with this and how they relate to the procurement to pay process.

3.6   Internal guidance details the approach in respect of the 'No PO No Pay' policy and that strict adherence to this is required. As part of the guidance, an exception list is incorporated that applies in specific, limited circumstances, providing details on what

range of suppliers are exempt from the PO process. Some examples of the range of suppliers that are exempt from the policy include:

- Utilities
- Telecommunications
- Legal services
- Rent – covered by a long term lease agreement.
- Postal services.

3.7 The reason that an exception list exists is reflective of the nature of expenditure incurred by the Council and appropriate financial oversight required in respect of the relevant transactions. Appendix 1 sets out some of the main aims and benefits of implementing a PO process. The types of goods/services included in the exception list do not require an additional level of systematic review afforded by a PO for several reasons including:
- There are limited predetermined suppliers utilised by the Council, for example in respect of water or electricity provision that is monitored directly.
- Expenditure relates to long term agreements and hence the contractual relationship is established, certain, and clearly articulated in legal documents for instance in relation to rental/lease agreements.

3.8 Prior to processing invoices relating to the exception list, the accounts payable team ensure that the appropriate Officer within the requisite department confirms, via a standard worded statement that the transaction falls within the exception list and spend approval is confirmed. This ensures that due diligence and proper governance checks are followed prior to those payments being made, similar to the approach afforded by purchase orders.

3.9 The Oracle Fusion system has further facilitated the adherence to the 'No PO No Pay' policy in respect of the supplier portal. Once a supplier sets themselves up on the portal, invoices are submitted via this channel electronically. Any submissions that do not have a PO included upon them are sent directly back to the supplier for them to populate, prior to the payment being actioned. Communications have been made to suppliers to ensure that the messaging of this approach has been made. This results in the efficient processing of payments and leads to effective engagement with departments when finalising the process.

3.10 Precise numbers of invoices returned to the suppliers due to them not including a PO number are not maintained however typically around 13 email batch invoices are returned to suppliers per day, equating to around 10% of those submitted. On going dialogue with suppliers is being undertaken with the aim of reducing this number as it's in the Council's and suppliers best interests to have a seamless and efficient payment process. When an invoice is returned to the supplier, a statement is provided explaining the situation with a request that an invoice is submitted with a PO quoted as per Council policy. Communications also explain that future invoices should include a PO as that will facilitate the speedy, efficient processing of an invoice and assist the supplier in receiving the payment promptly.

3.11   The new system has also brought added benefits by automating procedures when processing payments. There is automated scanning of invoices whereby the system learns how to identify invoices over a period to facilitate a seamless payment process. In addition, officers are being automatically reminded to add receipt confirmations within the system after the goods/services have been received so that payments can be made in a timely manner. This is part of the 3 way match process whereby the PO, goods receipt and invoices have to match prior to a payment being made. This ensures proper governance and compliance with regulations. If there is any slippage on receipt confirmation timelines, then there is an escalation process to senior officers to instigate action.

3.12   For the financial year 2023-24 to the beginning of October there are 25 transactions that may require further review as to whether they may fall within the exception list. Although the payments made would have followed the correct procedure and sign off, it is considered appropriate that a secondary investigation is undertaken for assurance purposes. Initial investigations have shown that they are correct as they relate to retention releases and emergency payments.

4.0   FINANCIAL IMPLICATIONS

4.1   There are no direct financial implications of this report.

4.2   Adherence to the 'No PO No Pay' policy delivers robust governance arrangements when dealing with suppliers. It assists in ensuring that value for money (VfM) is achieved for the Council through appropriate control procedures.

4.3   Financial controls reduce the risk of fraud and is part of the overall risk management policy approach for the Council.

5.0   LEGAL IMPLICATIONS

5.1   There are no direct legal implications of this report.

5.2   The Council must comply with its Contract Procedure Rules and relevant procurement legislation.

6.0   RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1   The programme of addressing these issues has received significant levels of support from accounts payable and procurement staff. This has involved providing training and regular communications and reminders.

7.0   RELEVANT RISKS

7.1   Failure to comply with the 'No Po No Pay' Policy exposes the council to a range of risks including:

- Failure to control expenditure with suppliers and providers.
- Duplicate or overpayments for goods, services and works.
- Poor planning and control of contracts
- Inefficient practices and controls within the services

7.2 Failure to monitor contracts is not good governance and exposes the Council to potential fraud.

7.3 Risk of litigation if there is failure to apply procurement legislation and/or Contract Procedure Rules.

8.0 ENGAGEMENT/CONSULTATION

8.1 The Corporate Governance Group, Departmental Management Teams, and Senior Management Teams receive monthly analysis of performance against the Contracts Procedure Rules and No PO No Pay Policy

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality issues arising from this report, but equality implications are embedded into procurement processes.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The content and recommendations contained within this report are expected to have no impact on climate issues.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The content and recommendations contained within this report are expected to have no impact on community wealth. However, the efficient use of council money ensures value for money and the efficient payment of invoices ensures that SME's are paid promptly which aids cash flow for smaller businesses.

REPORT AUTHOR: **Steve Boyd**
Head of Procurement
steveboyd@wirral.gov.uk

APPENDICES

Appendix 1 - Aims and benefits of operating a purchase order (PO) system.

BACKGOUND PAPERS

Contract Procedure Rules
Purchase Orders Exception Guidance

TERMS OF REFERENCE

This report is being considered by the Audit and Risk Management Committee in accordance with section 3.2 (b) (i) of its Terms of Reference, namely, With Chief Officers to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	June 2022
Audit and Risk Management Committee	January 2022
Audit and Risk Management Committee	July 2021
Audit and Risk Management Committee	November 2020

Appendix 1

Aims and benefits of operating a purchase order (PO) system:

Control and Accountability: PO systems provide a structured and documented process for requesting and approving purchases. This helps ensure that purchases are authorised by the appropriate personnel, reducing the risk of unauthorised or unnecessary spending.

Budget Management: By requiring purchase orders for procurement activity, better budget management can be facilitated. POs help track committed funds, preventing overspending and helping organisations stay within their budgetary constraints.

Supplier Relationship Management: Implementing a purchase order system facilitates accurate records of supplier interactions. This can help build and maintain positive relationships with suppliers by providing a clear history of past transactions and agreements.

Streamlined Procurement Process: PO systems streamline the procurement to pay process by automating many of the administrative tasks involved, such as data entry, approvals, and documentation. This leads to increased efficiency and can reduce manual effort.

Compliance and Auditing: Purchase orders create a clear audit trail for financial and compliance purposes. They provide a record of what was ordered, at what cost, and from which supplier. This is valuable for internal audits and regulatory compliance.

Cost Control: With a purchase order system in place, there is potential to negotiate better terms with suppliers, track prices over time, and ensure that agreed-upon prices are maintained. This helps in cost control and cost reduction efforts.

Reduction of Errors: Manual procurement processes are prone to errors, such as data entry mistakes or miscommunication. A PO system helps reduce these errors by standardising the procurement process.

Efficient Workflow: Purchase orders help establish a clear workflow for procurement, from request, to approval, to receipt of goods or services, which confirms that payment can be released. This ensures that everyone involved in the process understands their role and responsibilities.

Data Analysis: Over time, the data generated by a purchase order system can be used for analysis and decision-making. This data can help identify trends, opportunities for cost savings, and areas for process improvement.

Emergency Procurement: In cases where urgent purchases are needed, a purchase order system, through call off orders, can expedite the approval process while still maintaining control and accountability.