



Governance & Audit Committee 18 April 2016

Purchase Order Update

Purpose of report

To set out the current status of purchase orders and performance and make recommendations for improvement.

Attachment(s)

Appendix 1: Performance for the year to February 2016

1.0 Introduction

- 1.1 The creditors function at East Northamptonshire Council is delivered through the EnCor Financial Services team, which is shared with Corby Borough Council. The function's primary objectives are to deliver prompt and accurate payments to approved creditors, but only after goods or services have been delivered to required specifications.
- 1.2 During 2015/16 an internal audit was carried out on creditor payment processes which was designed to provide management with assurance that appropriate controls are in place to effectively mitigate the key risks associated with these processes.
- 1.3 During the audit a sample testing of payments was made which highlighted that 96% of these had been matched to an approved purchase order (PO) on the system. It was noted; however, that 23% of these had been raised and approved retrospectively after the invoice date.
- 1.4 The audit found that the framework of controls currently in place provided Substantial Assurance that the identified risks had been appropriately mitigated. However, it identified that further improvements could be made which would increase efficiency in the procurement process and enable faster payment of invoices, tighten controls over approval of expenditure and increase accuracy of commitment monies on budget monitoring reports.

2.0 Purchase Order Performance

- 2.1 The council currently monitors the percentage of purchase orders which are raised ahead of an invoice being received. The target is set at 70% for 2015/16 (increased from 60% in the previous year). The performance for the year to February 2016 is shown at Appendix 1.
- 2.2 During 2016/17 the monitoring of purchase orders was incorporated into the performance clinic for each service area so that managers could identify where further action was required to improve the target. A summary of each service area is also now reported to CMT as part of the monthly finance dashboard (as shown at Appendix 1).
- 2.3 Whilst the target of 70% was achieved for the month of February, the council had only achieved an accumulated figure of 65% for the year to February 2016.
- 2.4 There are areas of expenditure across the council which are excluded from the

figures. These mainly relate to treasury management activities such as investments, precept payments and business rate levies. However, all other expenditure is included. The achievement of only 65% is less than satisfactory for the organisation as this raises concerns around best practice and good financial control. This level of performance is not acceptable and performance must be improved.

- 2.5 Furthermore, increased resource is required from service managers and finance officers due to the reactive processes that are currently in place as more effort is required to resolve the issue in comparison to a process where purchase orders are set up at the time of commitment.

3.0 Financial System Changes

- 3.1 The council is due to implement an upgrade to the current financial system during 2016/17 with an expected implementation date later in the financial year.
- 3.2 The purchase order process will also be reviewed as part of the implementation of the new system. Whilst the system process itself is not likely to change, consideration is being given to the introduction of intelligent scanning. This means that where an invoice does not have a purchase order number on it, the invoice will be rejected automatically.
- 3.3 This will support the transition towards 100% target but this will not address the issue of the underlying cause. There is also the additional risk of supplier disputes if the change in policy is not communicated properly beforehand.

4.0 Recommendations

- 4.1 It is recommended that a more detailed review is carried out on those invoices that did not have a purchase order raised in time to:
- Establish the reasons why purchase orders were not raised in time
 - Identify any other expenditure which should be excluded from the target
 - Identify where further training and guidance is required across the organisation
 - Understand the additional resource this work is consuming across the council
- 4.2 In order to support a more effective and efficient process, it is also recommended that all invoices are sent directly by suppliers to the EnCor Financial Services team so that they can be processed in a timely manner. This will mitigate the risk of any invoices being misplaced or delayed in the process.
- 4.3 One of the audit recommendations was to implement a policy where an invoice is rejected if it does not include a purchase order reference. This is becoming increasingly common across organisations including councils. Whilst this would ensure that a target of 100% is met fully, the implementation would have to be carefully managed to ensure suppliers have adequate notice of the changes.
- 4.4 Whilst the upgrade to the finance system is an ideal time to implement a 'no purchase order, no pay' policy, if it can be achieved earlier then this would support the transition to intelligent scanning (as mentioned at 3.2). However, it is proposed that where training and guidance is identified across the organisation, this is delivered ahead of any changes to the policy to ensure disruption to suppliers is minimal.
- 4.5 It is also recommended that any changes to the processes are communicated to all staff and suppliers ensuring that adequate notice is given of any key changes which impact them.

5.0 Equality and Diversity Implications

5.1 There are no known equalities issues arising from this report.

7.0 Legal Implications

7.1 There are no legal implications arising from this report.

8.0 Risk Management

8.1 The recommendations in this report will help to mitigate risks around the achievement of value for money by ensuring good financial controls are in place and procurement processes are carried out in accordance with best practice.

9.0 Resource and Financial Implications

9.1 There are no financial implications arising from this report.

10.0 Constitutional Implications

10.1 The report does not require any amendment to the Council's Constitution.

11.0 Customer Service Implications

11.1 There is a risk that the move to a 'no purchase order, no pay' policy will cause upset to some suppliers. However, with correct and timely implementation processes this can be managed positively and effectively.

12.0 Corporate Outcomes

12.1 This report links to the following Corporate Outcome – Effective Management

(Seeking to secure efficient, cost effective and good quality management of the councils resources)

13.0 Recommendation

13.1 The Governance and Audit Committee is asked to:

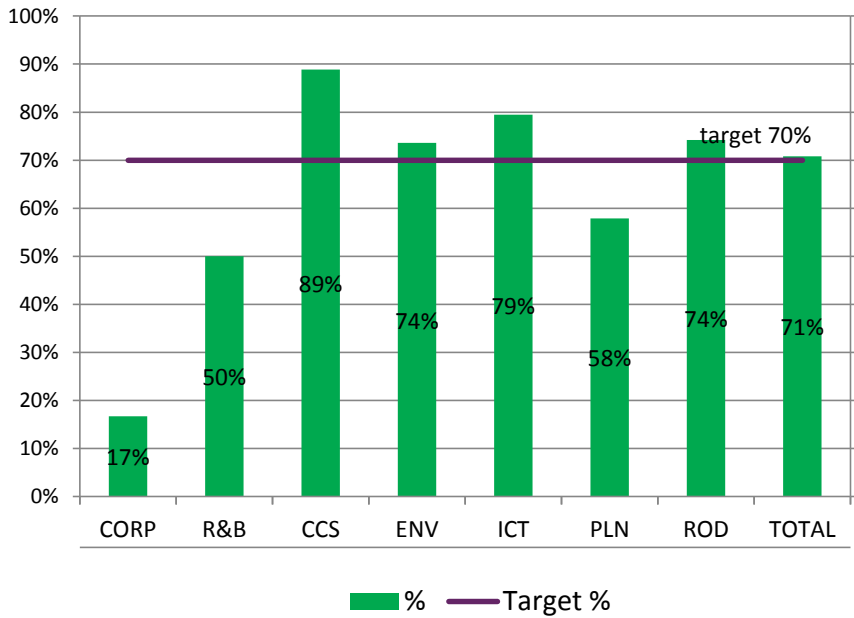
Note the contents of the report and the recommendations made at section 4 and provide feedback on the proposals

Legal	Power: Local Government Act 1972				
	Other considerations:				
Background Papers:					
Person Originating Report: Michelle Drewery, Finance Manager mdrewery@east-northamptonshire.gov.uk					
Date: 15/04/16					
CFO		DMO		CX	

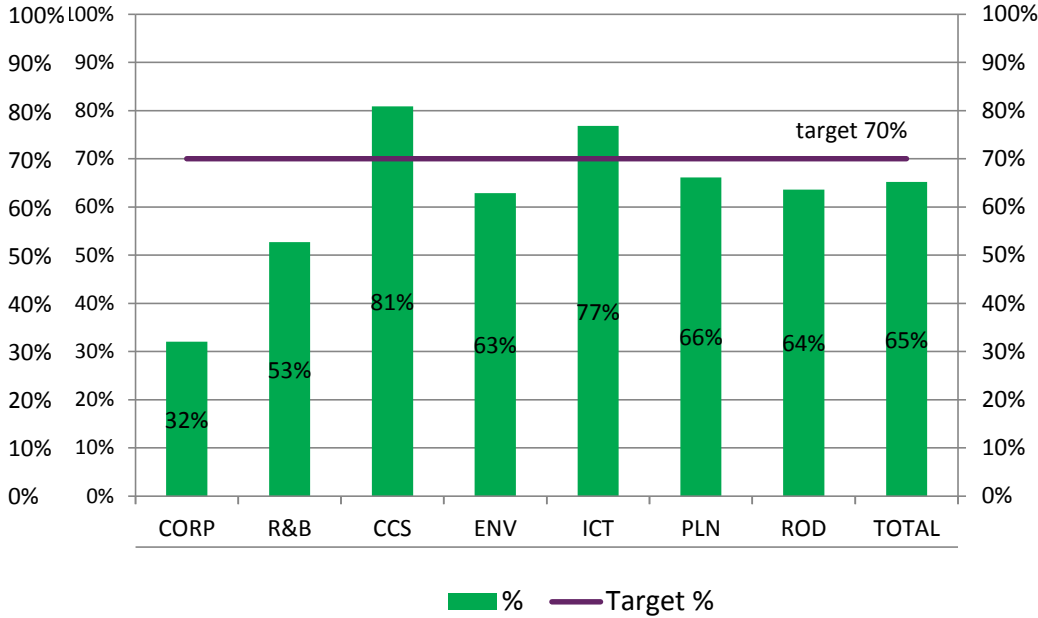
(Committee Report Normal Rev. 22)

% PO's RAISED BEFORE INVOICES

% PO's raised before invoices for month Feb 16 only



% PO's raised before invoices for year Apr 15 to Feb 16



	Total invoices	Raised in Time
CORP	6	1
R&B	14	7
CCS	9	8
ENV	53	39
ICT	39	31
PLN	19	11
ROD	62	46
TOTAL	202	143

	Total invoices	Raised in Time
CORP	78	25
R&B	129	68
CCS	136	110
ENV	455	286
ICT	363	279
PLN	189	125
ROD	847	539
TOTAL	2197	1432