

<b>Meeting:</b>	Audit & Governance Committee
<b>Meeting date:</b>	8 November 2023
<b>Report of:</b>	Debbie Mitchell, Chief Finance Officer
<b>Portfolio of:</b>	Executive Member for Finance, Performance & Major Projects

## **Audit and Governance Committee Report: Update on No Purchase Order No Pay Process**

### **Subject of Report**

1. The report provides an update to members of Audit & Governance Committee about the review of No Purchase Order No Pay processes.
2. Recent internal audits have found control issues from retrospective purchase orders (POs) being raised. Several audit recommendations have been made and this report provides an action plan (detailed at Annex A) together with progress made to date.

### **Policy Basis**

3. The report and the recommendation support the Financial Strategy of the Council, by providing assurance to Members that financial regulations are followed, orders are raised with the proper authorisation and budgetary control is adequate.

### **Recommendation and Reasons**

4. The Audit & Governance Committee are asked to note and comment on the action plan in the report ahead of a further update in March 2024.

Reason: To gain assurance that the Council is taking proper action to respond to the agreed audit actions and improvements to purchasing processes are being made where necessary.

## **Background**

5. The Council implemented a policy of No Purchase Order No Pay in January 2013. This required that all purchases must be made through the Council's purchasing system, Civica Purchasing. The supplier is then provided with the order and then when they issue their invoice it must quote a valid PO number. Any invoices received without a PO number would be returned to the supplier.
6. At the time the policy was introduced all purchasing users were reviewed and rationalised and refresher training was provided.
7. There are certain cases where a commitment will not be known in advance and a purchase order is not appropriate. These are identified in an exemptions list that is available on the intranet and which the Creditors team refer to in their daily tasks.
8. The Creditors internal audit report issued by Veritau in March 2023 identified that the retrospective raising of purchase order continued to take place; an issue that they had identified in the previous audit in 2021/22. The most recent audit found that 55% of invoices in 2022 were dated on or before the PO date.
9. The findings of the audit report were discussed by members of Audit & Governance committee in July 2023, and it was agreed that a progress report would be provided at a future meeting.

## **Audit recommendations and progress**

10. In terms of retrospective purchase ordering, the internal audit testing found that:
  - A significant proportion of purchase orders are raised after the invoice date, indicating that orders are placed with suppliers prior to purchase orders being raised.
11. There are four agreed actions in response to this finding:
  - The 'No Purchase Order, No Pay' policy and associated policies and processes will be reviewed to ensure compliance with the policy. This will include review of the purchase order and invoice data to understand where issues are most prevalent across service areas.

- The provision of training and guidance available for staff will be reviewed to determine whether more/refreshed training or guidance is needed for staff requesting purchase orders. Training and refreshed guidance will then be delivered as required.
  - The current ordering processes, and Business Support's role in raising requisitions and approving orders, will be reviewed to decide whether changes are needed to these processes.
  - The 'No Purchase Order, No Pay' exemptions policy will be reviewed to ensure that it is up to date and reflects current arrangements.
12. An action plan has been drawn up and is provided at Annex A to summarise the response to the audit recommendations. Progress against each area is described in the following paragraphs.

### Review of the Policy

13. The Council's Financial Regulations state that a PO should be raised prior to goods being receipted and invoiced for. The benefits of having the No PO No Pay policy, as part of the purchase to pay system are as follows:
- Suppliers receive the Council's terms and conditions with the order, including regular payment terms of 30 days from date of invoice;
  - A commitment of expenditure is made on the Council's ledger aiding forecasting and budgetary control;
  - Expenditure is authorised by an officer with the correct delegated authority;
  - The purchase to pay system can be automated as far as possible, resulting in efficient process times;
  - Suppliers can be paid within the council payment timescales and in line with the Government's Prompt Payment Code.
14. Under the policy it is expected that some invoices will be processed with a date earlier than that of the order: where an invoice is returned to the supplier because no PO number has been quoted, in accordance with the policy, the order will be raised retrospectively (assuming that the supplier does not change their

invoice date). Also, in exceptional cases a verbal order may be placed, and the order raised later.

15. There is still value added by the policy and it ensures that the Council adheres to its Financial Regulations. However, the policy does need to be fully reviewed following the recent audit findings. It is also acknowledged that retrospective ordering creates an increased workload on the Creditors team and it results in duplication of effort by purchasing users. Certainly, the following actions on training and exemptions (and resulting increase in adherence to the policy) would reduce the volume of invoices returned to suppliers by Creditors. However, consideration could also be given to setting a de minimus level below which invoices without a PO number will not be returned to suppliers and paid as a non-PO invoice instead.
16. There are also several angles to explore in terms of invoicing data to establish where issues of retrospective purchase ordering lie within the Council.
17. Firstly, all invoices should be sent externally into the 'invoices@york.gov.uk' inbox. Data has been produced to identify where internal emails are being sent to this inbox. This suggests that invoices are being sent to another Council department prior to coming to Creditors for processing and bypassing the automation processes of purchase to pay. A list of departments has been identified (refer to Annex B) and these will be consulted on to establish what process is being followed, training offered where necessary, or discussion held over whether an exemption is relevant.
18. Secondly, Creditors are often the point of contact for suppliers who have their invoices returned, although suppliers should be contacting the department who requested the supply. A review of the most common suppliers who contact Creditors will be carried out.
19. The data provided by the audit can also be interrogated further to establish any patterns in retrospective ordering.

## Training

20. Mandatory training was last provided in January 2013, when the revised policy was introduced. Since then, training of new purchasing users and authorisers is completed on the job, with support from Systems Officers. The Council's training system, MYLO, also offers essential training for all managers and staff involved in purchasing, although this is not mandatory.
21. It is likely that over time that the message to new users becomes diluted and they will become less familiar with the purchasing process and requirements. A further round of training needs to be established and refreshers provided at regular intervals.
22. Consideration could also be given to making this course a mandatory module on MYLO.

## Business Support role

23. The audit found that in any given year 35-40% of all purchase order transactions were processed through Business Support. As part of this process an Outlook form is completed by the service and Business Support raise the order on their behalf, with authorisation from a budget manager in the service. This process was established to ensure a high quality of orders were raised through experienced users and for services that do not have a large volume of orders or where the team is small, there isn't a requirement to have a member of staff trained in purchasing.
24. Initial consultation about this part of the process has raised concerns that there is duplication of effort from completing the online form and that Business support is not close to the service to know where invoices have been received and the order is being raised retrospectively.
25. This is an area for review in the action plan. Consideration will be given to areas where order raising should be devolved back to the services. For example, the service could be withdrawn if the number of requests exceeds a maximum level, at which it becomes practical to train the users within the department and remove the duplication.

26. A review of the approval process for orders raised by Business Support will also be undertaken to limit delays caused by duplication of efforts.

### Exemptions to the policy

27. The exemptions policy states that: *In certain circumstances it is accepted that purchase orders cannot be raised for the supply of certain goods and services. An exemption from the NPONP policy will be granted in these circumstances. Exemptions take the form of either a supplier exemption or type of exemption which covers a number of suppliers for the same service e.g. the pensions liabilities which the Council may not know about in advance.*
28. The policy also sets out the process for requesting new exemptions, a process that is managed by Procurement. A list of the current exemptions should be held on the Council's intranet although currently this is not available. The list was last reviewed at the time of the internal audit report.
29. Discussions so far with Procurement and Creditors indicate that the exemptions list is up to date, following the recent review, but further consultation will be undertaken through the work on the 'invoices@york' inbox.
30. Further revisions will be made if necessary and the list readded to the intranet.
31. All actions are underway, and some changes can be made as soon as the issues have been identified. It is proposed that a further report is brought back to this committee in the Spring of 2024.

## **Consultation Analysis**

32. Initial consultation has taken place with the Systems Finance team; Business Support (responsible for the Creditors function) and Corporate Procurement. As these sections all have a role to play in the purchasing process.

33. Consultation about the changes being made will be shared with these teams and Corporate Management Team to ensure support for the changes.

## Risks and Mitigations

34. If the purchasing processes and No PO No Pay policy are not followed correctly, the main risk is to proper budgetary control. In the current economic climate, it is essential that all commitments are forecast as far as is possible and suppliers understand the terms of payment offered by the Council.

## Contact details

For further information please contact the authors of this Report.

### Author

<b>Name:</b>	Helen Malam
<b>Job Title:</b>	Principal Accountant, Corporate Finance
<b>Service Area:</b>	Finance & Procurement
<b>Telephone:</b>	01904 551738
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### Background papers

Background paper: City of York Council Creditors internal audit report, issued 13/03/2023

Background paper: City of York Council Financial Regulations

Background paper: No purchase order no pay communication to staff and suppliers <https://colin.york.gov.uk/besupported/finance-purchasing/purchase-to-pay/>

Background paper: NPONP Exemptions Policy and List

### Annexes

Annex A: Action Plan

Annex B: Invoices received internally by Creditors, August 2023