Meeting:	Audit & Governance
Meeting date:	28/02/2024
Report of:	Debbie Mitchell, Chief Finance Officer
Portfolio of:	Executive Member for Finance, Performance & Major Projects

Audit and Governance Committee Report:
Update on Action Plan - No Purchase Order No Pay

Subject of Report

1.   The report provides an update to members of Audit & Governance Committee about the ongoing review of No Purchase Order No Pay processes. It details the progress made since the report to members in November 2023.

2.   Progress is being made against all the agreed actions and an improvement in invoice data in terms of retrospective orders being placed has been seen.

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.   Audit & Governance are asked to note and comment on the progress to date.

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.   Recent internal audits have found control issues from retrospective purchase orders (POs) being raised. Several audit recommendations have been made and an action plan was presented to members of this committee in November 2023 as a response to these actions.

6.   The Creditors internal audit report issued by Veritau in March 2023 identified that the retrospective raising of purchase order continues 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.

7.   The action plan focussed on 4 areas to mirror the recommendations of the internal audit reports:
    - Review of policy and processes
    - Training
    - Role of Business Support
    - Exemptions to the policy

8.   The action plan was discussed by members of Audit & Governance committee, and it was agreed that a progress report would be provided at a future meeting.

Progress to date

9.   Since November, a significant amount of work has been undertaken to analyse the issues across Purchase to Pay. This has involved Business Support and Procurement colleagues as well as Finance. A large proportion of the work has been fact-finding in nature, to understand why different users and departments are raising purchase orders retrospectively.   As such there has been no direct effect on the statistical data. The issues vary across departments and there are not obvious 'quick fixes' in most cases. A common theme that has been established is the need for training to improve the efficiency of the processes and adherence to the policy.

10.   We have also engaged with other local authorities to get an insight into how they have made improvements to their purchasing

processes and will be making use of their experience moving forward.

11.   The action plan has been updated and is provided at Annex A. Progress against each area is described in the following paragraphs.

Review of the Policy

12.   In December 2023, the Council implemented spend controls in order to limit the extent of the in-year overspend. As a result, the number of POs raised across the Council has significantly reduced, although not directly linked to the this review it does mean that spend is being scrutinised more closely and it is expected that users of the purchasing system will be more aware of commitments being made.

13.   In terms of progress against the actions; firstly, the policy remains under review by Finance, Business Support and Procurement. The benefits of the policy still apply today, however adherence to it is not consistent. A number of services have been reviewed so far and each one has differing issues. The solutions explored include:

- Training to ensure adherence
- Use of call off orders
- Use of emergency orders
- Applying an exemption to the policy

14.   Retrospective ordering is one of the key issues identified in the Creditors audit. Data shows that there are some areas where large numbers of retrospective ordering takes place. These are being identified and discussions held with each service and the Finance support to establish which solution is appropriate.

15.   The data from the last two months shows that there have been reductions in the number of retrospective orders across Environment, Transport & Planning and Housing & Building Services. Together with Business Support, these areas account for over half of the total number of invoiced orders in the year to date. See table below:

Department	Total Invoiced Orders YTD	Retrospective Orders YTD	% YTD
Environment, Transport & Planning	3,534	1,898	54%
Business Support	3,772	1,620	43%
Housing & Building Services	2,061	1,445	70%
Other Services	4,485	1,701	38%

16. Since the last report, Creditors have made changes to their processes. The aim is to increase adherence to the purchasing policy, reduce their workload and assist with the spend control measures.

Training

17. As previously stated, the need for training is evident. Many of the discussions held already suggest that new starters have been trained to follow practices that don't adhere to the policy. The conclusion is therefore that the practice of local training by another purchasing user should be replaced by corporate training.

18. A new training course will be drafted and will be a mandatory requirement for all new users of the purchasing module. This will be done with the support of the Workforce Development Unit.

19. For existing users, a refresher training module will be prepared for the Council's online training system (MYLO) and subject to CMT approval, there will be a requirement to complete this on an annual basis.

20. The new training will be drawn up in the coming months and commence in the Summer. A revised date for this action has therefore been added to the plan at Annex A.

Business Support role

21. Progress has been made more easily in this area, as the number of users is smaller. Requests for retrospective ordering by other departments are now being monitored and support is being provided by the Systems Team. Where a request for a retrospective PO is

made an escalation process is in place for repeated non-compliance.

22. The monitoring log shows that rejected requests were not in respect of a common supplier, but there have been multiple requests from the same people. This provides another angle to explore for training.

23. The Creditors Team have also logged invoices received without a PO number referenced, since November. Where they have been received directly from suppliers these are returned. A review of the log shows that most suppliers have had one invoice returned, however there are a number of suppliers who repeatedly send invoices into the Council without a PO number. Communications will be issued to these suppliers to remind them of the Council's payment terms.

24. Furthermore, in a change to the process, all requisitions are now sent to the appropriate Budget Manager to approve directly within the system, which has removed the duplication of authorisation via email as well. This change will also highlight spend to those managers and aid scrutiny.

25. During December and January there has been a significant reduction in the number of retrospective orders being placed by Business Support, on behalf of other departments. The average has decreased from 224 a month to 136 per month. It is expected that this number will improve further as departments are better educated and the training has taken effect.

26. This is important as on average business support process 35-40% of all purchase order transactions. There is still further work to complete to determine if the role of ordering needs to be devolved back to some services.

Exemptions to the policy

27. An initial review of the current exemptions list has been completed by Finance and Procurement. Where necessary this has been streamlined. However new exemptions are being considered in areas where POs are not workable.

28. It is acknowledged by officers that there will continue to be occasions, albeit limited, where an exemption to the policy is necessary to avoid inaccurate commitments to the ledger and lengthy processes that do not add value. Although this should by no means be seen as a way of avoiding the correct processes.

29. Members previously requested information about the exemptions currently in place. The list includes 68 exemptions, which fall into 4 agreed categories. The table below shows the data for these:

Category	Number of suppliers
System: Framework-i	16
System: Tranman	25
Others	16
Utility	11
Total	**68**

30. The Framework-i and Tranman categories were granted exemptions as the orders have effectively been raised on an alternate system. These orders are interfaced with the general ledger and therefore no further order is raised. Utility suppliers are also exempt from purchasing.

31. It is the 'others' category that is controlled and limited as far as possible by Procurement. Examples here include Royal Mail and Whistl for postage and Allpay, our global payments supplier. In these examples our supply is hard to predict or unknown and therefore a call off order would not add value to the control of expense or budget monitoring.

Conclusions

32. The steps put in place so far have started to raise the awareness of users around the need to follow the correct processes and avoid raising retrospective POs. However, the work to improve efficiency and adherence to the Council's purchasing processes is ongoing and will to take a concerted effort to realise improvement.

33. The data so far shows us where we need to target our efforts, but there is a general need for both refresher training of existing users and expert training of new users. This should be provided by the owners of the system, rather than other users.

Consultation Analysis

34. 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.

35. 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

36. 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.

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Background papers

- A&G Report, Update on No PO No Pay processes, 8 November 2023
  https://democracy.york.gov.uk/ieListDocuments.aspx?CId=437&MId=14178&Ver=4
- *City of York Council Creditors internal audit report, issued 13/03/2023*
- *City of York Council Financial Regulations*
- *No purchase order no pay* communication to staff and suppliers
  https://colin.york.gov.uk/besupported/finance-purchasing/purchase-to-pay/
- *NPONP Exemptions Policy and List*

Annexes

- Annex A: Action Plan