

**TO:** SENIOR MANAGEMENT TEAM

**FROM:** HEAD OF FINANCE

**DATE:** 29 JANUARY 2014

**SUBJECT:** FINANCE UPDATE – PROCUREMENT, ORDERS, INVOICES AND CONTRACT MANAGEMENT

**1 SUMMARY**

- 1.1 This report sets out to remind officers across the Council of some of the processes and procedures that need to be followed in respect of procurement, orders, invoices and managing contracts/budgets.

**2 RECOMMENDATIONS**

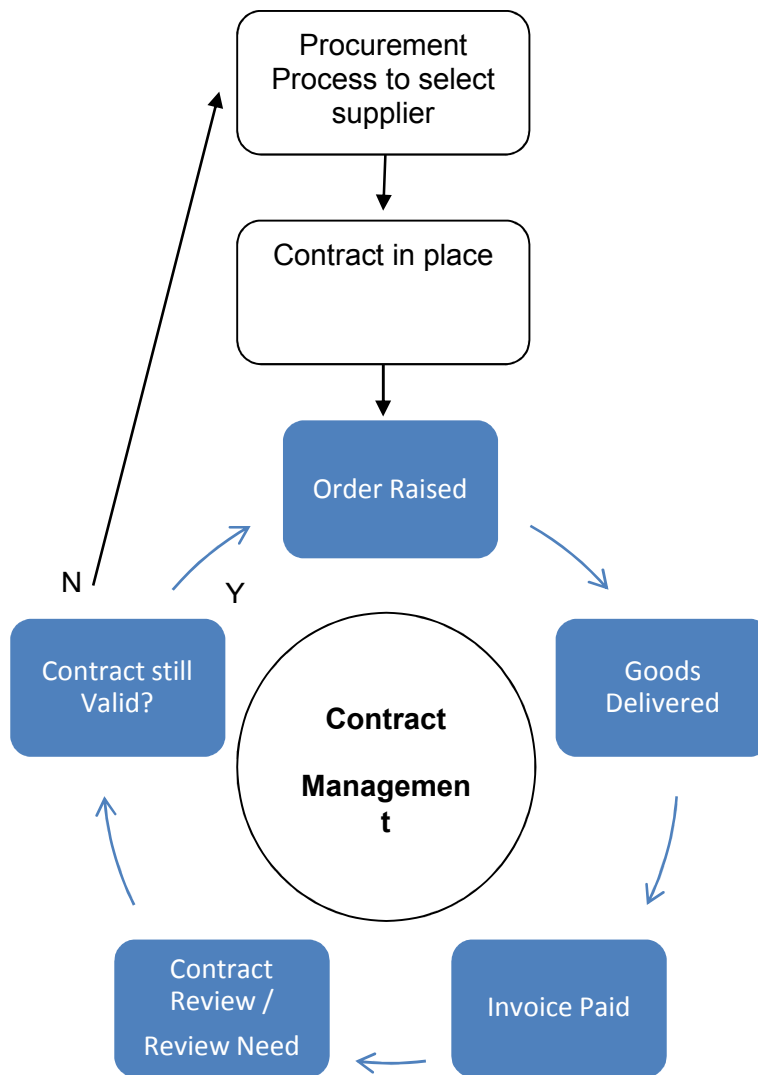
- 2.1 That all officers with responsibility for procurement, contracts, orders, invoices or budgets comply with requirements and processes detailed within this report.
- 2.2 That SMT ensure that this report is brought to the attention of all officers within their Service Areas with any responsibility for procurement, contracts, orders, invoices or budgets.
- 2.3 That SMT ensure that their officers attend the opportunities referred to in Section 3.4.

**3 REASONS FOR THE RECOMMENDATIONS**

- 3.1 The Council's agreed Codes of Financial and Procurement Practice set out how the Council's finances should be managed. In effect, the Codes are instructions to both officers and members on how they should be dealing with any aspects of their work which has financial implications.
- 3.4 This opportunity is being used to remind all officers of some aspects of the codes which are not always being correctly followed. It should be noted that this is not intended as a criticism of all officers or departments, as excellent practices do occur in much of the Council. However, it is good practice to remind all officers of these requirements.
- 3.2 The attached Appendix sets out more details with regard to the issues listed below:-
1. Contracts to be in place for all supplies/services
  2. Suppliers to be selected through a proper procurement process in accordance with the Code of Procurement Practice
  3. Signing contracts
  4. Raising of orders
  5. Annual Orders
  6. Orders to be raised in advance
  7. Orders not to be raised after the invoice has been received except in an emergency situation.
  8. Orders for the correct value

9. Orders against the correct code
10. New codes may be necessary
11. Orders in other systems
12. Good Delivered
13. Invoices to be paid against the order
14. Invoices should be processed promptly
15. Contract Management
16. Accruals and closing orders at year end

3.3 The broad process to be followed is shown below:-



### 3.4 Future Developments

Work is currently on-going with regard to the following initiatives which will impact across the Council:-

#### 3.4.1 Order training

In order for the payments process to run smoothly, it is vital that orders are created properly so that the Fsteam can use them readily to pay suppliers. The ICT Trainer will be running monthly sessions to ensure new (and current) users create orders in the most efficient and logical way. Further help will also be available by Moodle as well as a manual that is being created for the purpose.

### 3.4.2 Auto-matching of invoices/scanning

Following the upgrade to Total the intention is to introduce Auto-matching of invoices. This involves WDC receiving a suppliers invoice and the system automatically matching (and creating an electronic invoice) to an existing WDC order (which would need authorising), saving the manual creation of the invoice on the system. This could free up a significant amount of resources.

### 3.4.3 On the actual Purchase Order sent to the supplier it states under

***'IMPORTANT NOTICE TO ALL SUPPLIERS - Upon completing this order, an invoice quoting order number xxxxx should made out to Warwick District Council and forwarded to the Invoice Address shown above. Failure to quote the Order Number will result in the invoice being returned.'***

This is currently not being enforced but will be when WDC moves to auto-matching of invoices. Orders not being raised correctly in advance will result in the payment to the supplier being delayed.

### 3.4.4 Code of Financial Practice training

Work is currently on-going to develop an on-line training module on the code. This is hoped to be rolled out in the Spring.

### 3.4.5 Procurement Training

Ahead of any further formal procurement training, training needs are being assessed. Informal advice and training continues to be available from the Procurement Team.

### 3.5 In advance of, and alongside any training, officers in Finance will always be happy to provide advice and assistance on all relevant matters. Use should be made of the on-going Budget Review process and discussions with accountants to raise any issues.

## 4 **POLICY FRAMEWORK**

### 4.1 It is important that the Council's financial spend is correctly managed so that resources can be utilised in line with the Council's priorities.

## 5 **BUDGETARY FRAMEWORK**

### 5.1 As stated within paragraph 3.1, it is important that the Council's finances are managed in accordance with the Codes of Financial Practice and Procurement. The Council needs to ensure that it complies with all legislative requirements. As a public body, it is a requirement to have correct processes and practices in place.

**PROCUREMENT, ORDERS, INVOICES AND CONTRACT MANAGEMENT****1. Contracts to be in place for all works, supplies/services**

Contracts should be in place for all works, supplies and services. Any purchase made should be placed under a formal contract, framework agreement or accepted quotation. There should be very limited occasions where works, goods or services are not arranged through a pre-agreed contract or framework. Contracts may already be in place (for example, one set up and used by another department) which may be used. Accordingly, there should be limited occasions to set up new creditors within Total. The Procurement Team will be happy to advise on what suitable contracts / frameworks are in place, and whether it is appropriate for a new supplier to be set up within Total.

**2. Suppliers to be selected through a proper procurement process in accordance with the Code of Procurement Practice**

If a suitable supplier is not already in existence, the Procurement Team will agree the correct procurement process to be followed so as to appoint a suitable supplier. The Procurement Team will be able to help and guide officers here and to take the lead on procurement activity and manage the whole process where the procurement process involves a formal tender; working with suitable officers (budget manager) within the Service Area. Officers' responsibilities include:

- specification, defining the business need,
- the selection / award criteria
- lead the project team to manage the procurement, evaluation and award process.

Officers should plan ahead to allow time for developing the tender as part of the overall procurement process to be followed.

**3. Signing Contracts**

Before any commitment is placed with a supplier all relevant contracts must be duly signed and sealed if applicable in accordance with the Code of Procurement Practice. All original signed contracts will be retained and managed by the Procurement team. Contracts need to be retained on file after the expiry date of the contract.

**4. Raising of orders**

Once a preferred supplier is sourced, and the creditor has been created within Total, and assuming there is a suitable budget to pay for the supplies, a formal order should be raised within Total. This should be as part of commissioning the work, and before any work has taken place.

**5. Annual Orders**

Depending on the nature of the contract and the works, it may be possible and advantageous to raise an annual order (ideally in April) to cover the works for the whole of the financial year. This has the following advantages:-

- The full financial commitment is shown from the start of the financial year. This should make managing the remaining budget far simpler, knowing that the committed budget has already been allocated against an order.
- The supplier will know the order number against which to quote on their invoices. This in turn will make the invoice processing far more efficient, and in due course ensure the supplier is paid promptly in accordance with the agreed payment terms.
- With a single order held on the system, it is then relatively straight forward to write this order down as goods are delivered against it and orders get subsequently processed.
- Total will be able to show the contracted work ordered from the supplier that has not been yet been delivered or invoiced.

### **6. Orders to be raised in advance**

Of course, there are still instances when it is not possible or suitable for an annual order to be placed, especially if the nature of the supplies/service is ad hoc, or not known about at the start of the year. In these cases, orders still need to be routinely raised as the goods/services are arranged. Even if the goods are arranged verbally or over the internet, the order still needs to be raised through Total, with the order number given to the supplier. Suppliers should not accept the request for works without being given a formal order/order number.

### **7. Orders not to be raised after the invoice has been received**

It is totally unacceptable behaviour for orders to be raised retrospectively after the receipt of an invoice. The problems with this behaviour are:-

- It circumvents the need for orders to be formally authorised, and leaves WDC open to potential for fraud and corruption.
- There is no formal record of the goods/services required.
- The supplier will not be able to quote a formal order number on invoices etc, which in turn creates inefficient invoice processing/payments.
- The Budget Review process is undermined as the commitments shown in Total will be inaccurate. This in turn may lead to overspends against budgets.
- Only in exceptional circumstances can an order be raised after the event ie in an emergency situation. Orders should be raised as soon as possible after the event.

### **8. Orders for the correct value**

Orders should always be raised for the correct value, or the best estimate that is possible. Raising orders for a nominal sum (possibly so as to obtain an order number) is not acceptable.

### **9. Orders against the correct code**

Orders should always be raised against the correct budget code within Total. This means the most appropriate cost centre and detail description should always be used. This is a key element of budget management. Failure to do so will undermine the information held and reported on from Total. It is not acceptable to code an order to a wrong code purely because it is where the budget sits. If necessary budget virement can be arranged so as to move the budget to the correct code.

### **10. New codes may be necessary**

If necessary, the accountants will be able to set up additional cost centres or detail codes. Not only may this help ensure the nature of the service/suppliers are correctly described within Total, a separate cost centre may be appropriate so as to separately identify and manage a specific contract.

### **11. Orders in other systems**

These principles apply equally where contracts are being managed through another system, eg MIS (in Housing & Property Services).

### **12. Good Delivered**

Once the works/goods have been received, the order in Total needs to be duly updated to reflected the Delivery.

### **13. Invoices to be paid against the order**

Once the invoice has been received, it should be checked against the order (and contract if necessary), and if correct, be authorised (signed by an agreed officer), and passed to the FSTeam for payment as soon as possible.

### **14. Invoices should be processed promptly**

Invoices should not routinely be "batched up", for example on a weekly basis. This does not create an efficient flow of work for those involved in ordering the goods, nor for those processing the invoice. This can result in delays to the payment, and waste in trying to make special payments.

Even if the order is not yet due for payment, it should be processed and passed to the FSTeam for payment. The team will process the invoice onto Total, but payment will not be made until the payment is due to be made to the supplier in accordance with the agreed payment terms.

### **15. Contract Management**

Correct procurement is not only about arranging a supplier for the relevant works/goods/services in accordance with the Code of Procurement Practice. It is vital that the contract is properly managed. Depending on the nature of the contract, the following are expected to be undertaken on a regular basis as part of this:-

- The officer responsible for the contract needs to ensure that they are familiar with the terms of the contract so that they understand what they are managing.
- The expenditure under the contract needs to be monitored. If it is likely to exceed the sums within the original tender, this would need to be discussed with the Procurement Team. This should also be part of budget management.
- The service received from the supplier needs to be monitored.
- There should be a regular dialogue with the supplier. Even if the contract is seemed to be working from the Council's perspective, it is important to understand any issues that the supplier may have; not to do so may result in problems at some time in the future.
- A good working relationship with the supplier will work in both the supplier's and the Council's interests.
- Plan ahead for when the contract if due to end (or a break clause) to be sure what need to be done.

- Break clauses in a contract allow an opportunity to review the need and if necessary cancel / not renew the contract. A period of notice to the supplier is required to inform them of our intentions of whether to take the option or cancel the contract. Failure to follow the period of notice cause may incur additional costs.
- Contract Management is about managing risks in the delivery of a service. The full scope of correct contract management is not detailed here.

### **16. Accruals and closing orders at year end**

All orders outstanding at year end should be dealt with in accordance with the Final Accounts instructions issued by Accountancy. For any queries, or if you are uncertain, please contact your Accountant.