

Audit Committee – 28th January 2010

## 6. Purchase Orders – Update on Improvements to Finance System

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### Purpose of the Report

To update members of the Audit Committee on the improvements to the financial system with regard to streamlining the Purchase Ordering process.

### Recommendation

That members note the proposed improvements to the financial system in order to streamline the purchase ordering and payment process.

### Current Purchasing/Payment Process

The invoice is received by the resolution centre and then passed to the relevant department where it is coded and manually authorised. It is then input into the financial system by the individual departments. The invoice is then authorised again on the financial system.

The following figures show how under utilised the purchasing order module is:

Quantity of invoices processed in year (1/1/09 – 31/12/09) = 28,481

Quantity of invoices processed that were order related in the same period = 5,708 (20%)

The use of official purchase orders should be used for orders of goods and services. This enables the organisation to review its overall financial commitments at any time. This is best practice although in some special circumstances e.g. payment of quarterly energy costs it is not practicable to do so.

Currently some services based at Lufton use the Fleetmaster system to raise purchase orders. These order numbers have no correlation to those produced by the Council's main financial system (Cedar) so when the invoices are input they are entered as non-order related invoices.

### Proposed Purchasing/Payment Process

When goods or services are ordered an order must be raised on the Purchase Ordering module of the Council's financial system (Cedar). This order number must be given to the company and needs to be quoted on the invoice – if the order number isn't quoted the invoice needs to be returned to the company.

Once the goods or services are received the order is marked goods received on the system in preparation for payment of the invoice. If the invoice doesn't match the order, the order can be revised and re-authorised so payment can be processed without delay.

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If an invoice comes in and matches the purchase order the invoice can be passed for payment without any further authorisation. However, a variance of a specified % or a fixed amount, for example £20, will be accepted so the invoice can be processed without any delay so as not to impact on our payment processing statistics. (The Financial System Team is currently looking into how this will work in practice).

If the invoice doesn't match the original order value and it is outside the tolerated variance, the invoice will need to be manually authorised before payment can be released. Once all items are paid against the order, the order needs to be completed so it isn't left outstanding on the system.

It is understandable that some invoices/payments won't necessarily require an order number however these will be the exceptions and an exception report will be run highlighting these and the service manager/assistant director will have to justify why an order wasn't raised. An example of a payment that will be classed as an exception includes utility bills and refunds.

### Conclusion

In order to move forward with the proposed process we will need to write to all of our suppliers informing them that unless we receive an invoice quoting a relevant order number it will be returned. This will be a cultural change and once embedded I do not believe it will cause any problems.

More internal training will also be required to educate officers to ensure that orders are raised as accurately as possible.

By adopting the proposed process SSDC will gain efficiencies through less processing time. Budgeting will be more accurate. There will be more procurement information available and by carrying out commitment accounting we would be able to see an accurate reflection of our financial position at any time.

### Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

**Background Papers:** None.