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Bwrdd Iechyd Prifysgol
Abertawe Bro Morgannwg
University Health Board



Meeting Date	15 th November 2018	Agenda Item	3e
Report Title	All Wales Procurement Compliance Procedure (No Purchase Order (PO)/No Pay Policy) Update		
Report Author	Andrew Biston, Head of Accounting & Financial Governance/ Helen James, Head of Procurement Services		
Report Sponsor	Lynne Hamilton, Director of Finance		
Presented by	Andrew Biston, Head of Accounting & Financial Governance		
Freedom of Information	Open		
Purpose of the Report	<p>To provide an update to the Audit Committee on the implementation of the All Wales Procurement Compliance (No PO/No Pay) policy.</p> <p>To advise the Audit Committee of the recent agreement by Executive Directors to allow purchase orders to be placed in the short term to meet the requirements of the All Wales Procurement Compliance (No PO/No Pay Policy) in circumstances where the procurement regulations as detailed in Standing Financial Instructions (SFI's) have not been followed, whilst a complaint procurement process is put in place.</p>		
Key Issues	<p>As at 22nd October, the health board had 960 invoices on hold within NWSSP Accounts Payable for suppliers where purchase orders have not been placed for goods and services.</p> <p>Whilst the procurement team are able to raise orders to clear many of these invoices, there are some invoices for which the raising of a purchase order would not comply with SFI's (e.g. the goods/service should have been subject to competitive quotation/tender). Where this is the case if "non compliant" purchase orders cannot be raised then the supplier invoice will not be paid until a quotation or tender exercise is completed.</p> <p>The inability to raise purchase orders in the short term until a compliant procurement process is put in place and therefore to pay the invoice, places the health board at</p>		

	<p>great risk of suppliers placing the health board on stop with the consequent risk to front line services and potential harm to patients.</p> <p>As a consequence of this, at their meeting on 31st October Executive Directors agreed that</p> <ul style="list-style-type: none"> ➤ The Procurement function be authorised to place (in the short term) purchase orders to meet the requirements of the All Wales Procurement Compliance (No PO/No Pay Policy) in circumstances where the procurement regulations as detailed in Standing Financial Instructions (SFI's) have not been followed, whilst a complaint procurement process is put in place, due to the risk to front line services of suppliers placing the health board on stop for non payment of invoices. ➤ An Assistant Director of Finance be given authority to authorise payment of invoices on hold without a purchase order in exceptional circumstances where there is a risk to service delivery. ➤ A letter is sent to all budget holders reminding them of the requirements to comply with the All Wales Purchase Order Compliance Policy and the procurement regulations as detailed in SFI's. 			
Specific Action Required <i>(please ✓ one only)</i>	Information	Discussion	Assurance	Approval
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Recommendations	<p>Members are asked to:</p> <ul style="list-style-type: none"> • NOTE the actions agreed by the Executive Board 			

ALL WALES PROCUREMENT COMPLIANCE PROCEDURE (NO PURCHASE ORDER (PO)/NO PAY POLICY) UPDATE

1. INTRODUCTION

- 1.1. All NHS organisations in Wales have agreed to the implementation of a Procurement Compliance (No PO /No Pay) Policy with a soft implementation date of 4th June 2018 and a full implementation date of 1st September 2018.
- 1.2. Following full implementation of the policy on 1st September, purchase orders must be raised for all goods and services which are not on the all Wales agreed exceptions list. Where purchase orders are not raised, the invoice for the goods/services supplied is placed on hold within NWSP Accounts Payable until a purchase order is raised.
- 1.3. From a procurement perspective, the raising of purchase orders should only take place when a procurement process has been followed which is compliant with Standing Financial Instructions (SFI's).

2. BACKGROUND

- 2.1. The implementation of a National Procurement Compliance (No PO/No Pay) Policy is an essential building block from which the efficiency and effectiveness of the procure to pay process can be developed. The benefits of introducing this policy are:
 - All goods and services (with agreed exceptions identified) are ordered appropriately, supported by an official purchase order in line with the LHB Standing Financial Instructions
 - Efficient processes are put in place so that goods are delivered when required
 - Cost control is improved as all non-pay expenditure incurred by the Health Board is valid and appropriately authorised in advance of the goods/service being received.
 - Potential cost savings may be obtained through procurement of goods through the existing catalogue of contracts or through a competitive tender/quotation process.
 - Invoices to suppliers can be paid quicker within the deadlines set by Welsh Government
 - Financial incentives for early payment offered by suppliers can be maximised.
 - All purchase orders for the acquisition of goods and services will be compliant.
- 2.2. There is an all Wales agreed list of exceptions where purchase orders are not required, the main areas being:

- NHS Invoices
- Local Authority invoices
- CHC
- Nurse Agency Invoices
- Invoices for orders made from the Pharmacy System

2.3. As at 22nd October the health board had 960 invoices on hold within NWSP Accounts Payable for suppliers where purchase orders have not been raised for goods and services. This is as a consequence of operational areas engaging with companies to supply goods and services without having involved the procurement team.

3. GOVERNANCE AND RISK ISSUES

- 3.1. The current situation presents a number of governance and risk issues and these are detailed in the following paragraphs.
- 3.2. The biggest risk at the present time is that the placing of invoice payments on hold within NWSSP Accounts Payable due to the absence of a purchase order places the health board at significant risk if suppliers refuse to supply goods and services to the health board with the consequent risk to front line services and potential harm to patients. The health board has already had one instance of a supplier threatening to withdraw agency Urology medical cover from Princess of Wales Hospital due to invoices not being paid because of a lack of a purchase order. This situation was averted through emergency payment of the outstanding invoices on the authorisation of the Assistant Director of Finance.
- 3.3. Whilst this risk of suppliers refusing to supply the health board can be minimised through the raising of retrospective purchase orders enabling the invoices to be paid, there are governance issues of non compliance with SFI's where purchase orders are raised where the procurement regulations require competitive quotations or tender exercises to be completed. Prior to the Executive Directors meeting, the procurement team were unable to raise purchase orders in such instances.
- 3.4. The current situation highlights the initial success of the Procurement Compliance (No PO/No Pay) Policy in improving governance through identifying non compliant purchasing but has also demonstrated the fact that the All Wales P2P Group did not consider the need to comply with SFI's in placing purchase orders in areas where they did not previously exist. It is important to note that this non complaint purchasing has also been identified through the ongoing work within the Procurement Workstream of the Bridgend

boundary change to identify contracts that will need novation to Cwm Taf Health Board post 1st April 2019. Audit Committee therefore need to be aware of this issue which is not only a governance risk for both ABMU and Cwm Taf Health Boards but will require significant resources within the procurement function to support the process of putting in place contracts which are compliant with the procurement regulations as detailed in SFI's.

- 3.5. The approach in other health boards has seen some health boards process purchase orders without consideration of SFI requirements, whilst others have taken a step back from the policy and instructed NWSSP Accounts Payable to pay invoices on hold without purchase orders being raised. The latter option which does not comply with the Purchase Order Compliance (No PO/ No Pay) Policy is not considered to be appropriate for ABMU, given the benefits of having purchase orders in place. However, in exceptional circumstances where service delivery is put at risk Executive Directors agreed that the authority to pay the invoices can be given through manual authorisation from an Assistant Director of Finance.
- 3.6. To ensure going forward that purchase orders are raised for all goods and services which are not on the exceptions list, in a manner that is compliant with SFI's, Executive Directors agreed that the Director of Finance write to all budget holders reminding them of the requirements of the Purchase Order Compliance Policy and the procurement processes detailed in SFI's.

4. FINANCIAL IMPLICATIONS

- 4.1. In addition to the service risks from the delay in payment of invoices which are on hold due to no purchase order being raised there are also potential financial implications. Where invoices are not paid within the agreed payment timescales, suppliers are able to levy late payment charges on each invoice at a rate of 8% above bank base rate. Delays in payment of these invoices whilst a compliant tender or quotation process is put in place will potentially lead to cost increases for the health board in late payment charges.

5. RECOMMENDATIONS

Members are asked to:

- **NOTE** the agreements made by Executive Directors at their meeting on 31st October that :
 - The procurement function raise purchase orders in the short term, where the procurement requirements under SFI's have not been met in order to comply with the All Wales Purchase Order Compliance Policy and to minimise the risk of service disruption through non payment of invoices on hold where a purchase order is not in place.

- An Assistant Director of Finance be given authority to authorise payment of invoices on hold without a purchase order in exceptional circumstances where there is a risk to service delivery.
- A letter is sent to all budget holders reminding them of the requirements to comply with the All Wales Purchase Order Compliance Policy and the procurement regulations as detailed in SFI's.